

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE ARMED SERVICES
COMMITTEE

STATEMENT OF
THE SECRETARY OF DEFENSE
WILLIAM J. PERRY
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
IN CONNECTION WITH
THE FISCAL YEAR 1995 BUDGET
FOR THE DEPARTMENT OF DEFENSE
FEBRUARY 22, 1994

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE
HOUSE ARMED SERVICES
COMMITTEE

STATEMENT OF SECRETARY OF DEFENSE WILLIAM J. PERRY
IN CONNECTION WITH THE FY 1995 DEFENSE BUDGET
HOUSE ARMED SERVICES COMMITTEE
FEBRUARY 22, 1994

Mr. Chairman, members of the committee, it is a pleasure for me to be here today to present President Clinton's fiscal year (FY) 1995 defense budget.

During my confirmation hearing, I laid out six responsibilities for the Secretary of Defense. One of the responsibilities is to prepare the annual defense budget that allocates resources and makes program decisions.

The budget is a powerful tool through which the Secretary implements defense strategy. Through the budget process, I as Secretary set my priorities for the Department. Today I want to talk about how this budget reflects the strategy we have adopted to build a post-Cold War Department of Defense (DoD). I want to share with you my priorities and lay out the rationale for my choices. For the budget is about choices. We could pretend that every decision was based on pure logic, but we know that is not so. Nor is there enough money to cover every option, to hedge every bet. I expect discussion, perhaps even challenges. It is time to open the debate.

Today I am presenting a post-Cold War budget. It reflects the realities of our inherited force structure. We have a quality force, but the size of the force structure is both a blessing and a burden. We have large stocks of top-quality equipment, which in FY 1995 continue to provide options regarding future modernization. We also have a force larger than we need, one that requires a few more years of downsizing, and an infrastructure that requires further shedding, a process which we have discovered has heavy up-front costs.

Defense Themes

(Chart 1) There are five major themes which I would like to highlight in this budget.

First, it implements the Bottom-Up Review.

Second, it protects a ready-to-fight force. It tells you what we have done to put reality into our rhetoric about readiness.

Third, it redirects our modernization program, taking advantage of our existing force structure while planning for the future.

Fourth, it starts to do business differently. There are serious fiscal implications if we do not manage better. Without

management changes, we will not have sufficient funds for the future. As it is, we know that we have to plus-up the procurement accounts in the outyears to begin the process of "recapitalizing" the force. If we fail to manage better, overhead will drain funds from other accounts. We will have no choice but to rob from readiness or increase the topline.

Finally, this budget reinvests defense dollars into other areas of the economy, including deficit reduction.

Post-Cold War Force Structure

(Chart 2) Let me begin with force structure. The Bottom-Up Review served as the heart of our force structure planning. The Review concluded that our basic force structure should be sized to fight two medium-sized regional conflicts (MRCs) nearly simultaneously, and it defined the minimum needed force structure. Additionally, we allowed the requirement for overseas presence to help size the force. The structure we proposed then, and which is supported by this budget, allows us to meet these requirements.

Our budget continues the drawdown begun by the previous administration and takes it to the BUR levels at the end of the Future Years Defense Program (FYDP). In some areas, we will reach these levels more quickly, an important factor since significant savings will accrue and be available to plow back into other investments. We are already close to the BUR level of four Marine divisions; we are getting close to 346 ships and the 13 active fighter wings. In other areas, we are on a more gradual glide path because we need to make the enhancements that will help us compensate for a smaller force structure. When we reach the BUR levels, the overall force structure will have come down about 30 percent from its peak in the '80's.

Manpower

(Chart 3) The overall manpower levels have come down as you would expect with the declining force structure. One notable change is the increased emphasis I have placed on reducing the civilian support structure in a way that is commensurate with the drawdown in military forces. This is a painful process, and we must continue to fund the programs that allow us to minimize RIFs. We must also adequately fund employee transition programs that permit discharged military personnel the best possible chance to find work in the civilian economy.

The good news in this process is that, with the '95 budget, we are almost at the end of the personnel drawdown. So the personnel turbulence which so heavily affects morale will be largely behind us at the end of the '95 budget year.

(Chart 4) During the Cold War the costs of manpower stayed about level. Now we are cutting deeply in this area. The savings from a smaller force structure are considerable, about \$36 billion. We are already realizing most of these savings. This is the prime example of a choice in priorities. We have chosen to cut force structure in order to preserve readiness. This is the opposite of the judgment we made in the 1970's when we maintained a force of 2.1 million people, but deeply cut the Operation and Maintenance (O&M) accounts. That approach led to the "hollow force" of the 70's. Instead, we have determined that we can effectively function in the post-Cold War era with smaller forces, if those forces are ready.

Priority on Readiness

(Chart 5) We are taking those savings and investing them in the Operation and Maintenance accounts as the most direct way to preserve readiness. While the force structure will decrease 7 percent between FY 1994 and FY 1995, we have increased O&M funding by 5.6 percent. We have also fully funded Service Optempo requests. We have also decided that even while weapons inventories are shrinking we need to increase depot maintenance funding by 20 percent. Finally, we are maintaining the budget levels for recruiting. FY 1994 was as good a recruiting year as ever in terms of numbers and quality, but we must counteract the popular perception that we can no longer offer full careers. We must resist the temptation to save dollars on recruiting.

These are areas where the Secretary of Defense can make his priorities known. I cannot go out and repair a broken airplane or ship, but I can make sure that the military services give readiness their highest priority. We even put this instruction into the front end of the fiscal guidance. The services were told that readiness is the first priority and that all other guidance could be traded-off if they needed to program funds for improved readiness.

(Chart 6) One of the challenges in making this sort of decision is to find ways to explain the effect that added funding for readiness will have. One of the best ways we have found is to look at the funding per unit of military activity -- the funds available to operate a plane, a ship, or a combat battalion. Through this measure we are able to show, by activities and capabilities in the field, the relative increase in funding we have provided for readiness.

(Chart 7) We can also look at the increase in funding relative to the manpower levels in each service. For example, you can see that the Air Force has chosen to increase its O&M relative to Air Force end strength.

This dollar emphasis on readiness translates into people's ability to do their jobs with high confidence of success.

Needless to say, increased funding for training and maintenance is important for morale.

Modernization Approach

(Chart 8) The next priority I have set for the Department, with John Deutch's help, is to redirect our modernization programs. Again, this decision is consistent with the strategy laid out in the Bottom-Up Review, which premised our two MRC strategy on force enhancements.

First, we will sustain a strong research and development effort. I firmly believe that we can and must continue to provide our forces the kind of advantage we had in Desert Storm. In the business world it might be called an unfair competitive advantage, but in combat it is called winning, and winning with minimum casualties. Additionally, a strong R&D effort is essential to provide a foundation if we ever have to reconstitute our forces.

Second, we need to continue to buy some next generation weapons. This is our commitment to the next generation of Americans. The C-17 is crucially important to the Bottom-Up Review strategy. We are also forging ahead with the F-22. But these are a select few programs.

Third, we have refocused the Ballistic Missile Defense Program to give first priority to theater defenses.

Fourth, have emphasized intelligence. We cannot dismantle it. The world is a dangerous, uncertain place, and many of the diverse threats we face today are difficult intelligence targets.

Finally, we want to preserve key elements of the industrial base that would go away if it were not for our support. This may be one of the most controversial decisions we have made, and I would be happy to discuss it at length.

(Chart 9) For the past twenty years the procurement budget has been on a roller-coaster ride. Research and Development has been more stable; it has come down some, but it is still higher, in constant dollars, than in the late 1970s when we developed the weapons used in Desert Storm. I want to maintain R&D at a robust level.

The most difficult choice we have made is on procurement, and this will be a point of contention for many with this budget. First let me say that we cannot sustain these low levels of procurement for long, and we are projecting an increase beginning after '95, when it goes up by 20 percent between '96 and '99.

(Chart 10) We plan to continue the drop-off in near-term procurement that started in the Bush Administration. We will go from 20 ships in 1990 to six in 1995, from 511 aircraft in 1990 to 127 in 1995 and from 448 tanks in 1990 to zero in 1995. The tank story is not a complete picture since we are doing some upgrade work, which keeps the industrial base warm, but the contrast to the recent past is dramatic.

There are two reasons for this drop off. First, we are projecting a much smaller force structure, down 30 percent. And even when we hit a steady state, we will have smaller buys than the past. Second, as our force size goes down, we can live off the inventory we built up for the Cold War.

The biggest challenge we will face during the transition will be fine-tuning the industrial base. Attack submarine forces is a good example. Based on a 90-sub force with a sub life of 30 years, the required build rate would be three per year. A projected 45-sub force would require only one-and-one-half submarines to be built per year. But as we draw down to that 45-sub level, we really have no need to build new submarines until after the turn of the century. The reason we have chosen to invest in a new Seawolf over the next few years is to keep the industrial base active at a minimum level until we need to start buying again at a steady-state level.

Each case will be different. For tanks we can handle the industrial base issue through upgrades and foreign military sales. For submarines we will need a stretched-out buy. With airplanes we have enough procurement, and with the development programs for the F-22 and the new F/A-18 version, we can be confident that we will have suppliers out into the future.

Doing Business Differently

(Chart 11) Related to the need to increase procurement after '96 is the requirement to do business differently. In this budget there is not enough money in the outyears to increase the procurement accounts unless we cut our costs. That means acquisition reform is a real need and not just a good idea.

In addition, we need to reform our financial management. It is a mess, and it is costing us money we desperately need. Third, we need to continue to shed infrastructure. We urgently need the help of the Congress for all these activities.

All three efforts are designed to save money in the outyears, but none will save money immediately. There is no line in this budget for projected savings from acquisition reform. We will not credit those savings until we can precisely identify and verify them. To do the base closure process

correctly and quickly requires significant funds, and better financial management requires investment in new systems.

Taking care of the environment is in a slightly different category, but there are parallels. We must spend heavily to clean up past mistakes, and this is money which is an increasing drain on regular military accounts. But we are also trying to prevent the need for expenditures of this sort in the outyears. It is important to note that there is an additional \$5 billion in the Department of Energy budget for clean-up.

(Chart 12) The last theme I want to stress in this budget is defense reinvestment, totaling a little over \$3 billion. Much of this money is being put into dual use technology, where there is a clear benefit to Defense as well as a benefit to the commercial sector.

(Charts 13 & 14) The overall picture for Defense as a part of the national economy and budget shows the dramatic shift in resources from Defense to the non-defense side of the economy. Defense outlays are now down to 3.7 percent of GDP and heading toward 2.8 percent in '99. Defense outlays are already down to 17 percent of the Federal budget. That represents a significant peace dividend for the American people.

(Chart 15) This is the topline showing what we are planning to spend for America's defense.

A Strategic Investment Plan

(Chart 16) In sum, the President's FY 1995 defense budget represents a strategic investment plan. It is a blueprint for getting us to where we want to go. It is based on a common understanding of strategy and what is needed to carry out that strategy derived from the Bottom-Up Review. The Bottom-Up Review provides clear goals for ensuring America's defense. The budget connects our strategy to force structure and costs. I believe that it fulfills the President's pledge to sustain the "best-equipped, best-trained, and best-prepared fighting force on the face of the earth."

FY 1995 BUDGET

- **Implements the Bottom-Up Force Structure**
- **Protects a Ready-to-Fight Force**
- **Redirects Modernization Program**
- **Starts Doing Business Differently**
- **Reinvests Defense Dollars**

Force Structure

	<u>Cold War Base 1990</u>	<u>Base Force</u>	<u>1995</u>	<u>BUR PLAN</u>
Land Forces				
Army Active Divisions	18	12	12	10
Army Reserve Component Divisions	10	8	8	5 +
Marine Corps (3 Active /1Reserve)	4	4	4	4
Navy				
Ship Battle Forces	546	430	373	346
Aircraft Carriers				
Active	15	13	11	11
Reserve	1	-	1	1
Navy Carrier Wings				
Active	13	11	10	10
Reserve	2	2	1	1
Air Force				
Active Fighter Wings	24	15.3	13.0	13
Reserve Fighter Wings	12	11.3	7.5	7

MANPOWER LEVELS

(End Strengths in thousands)

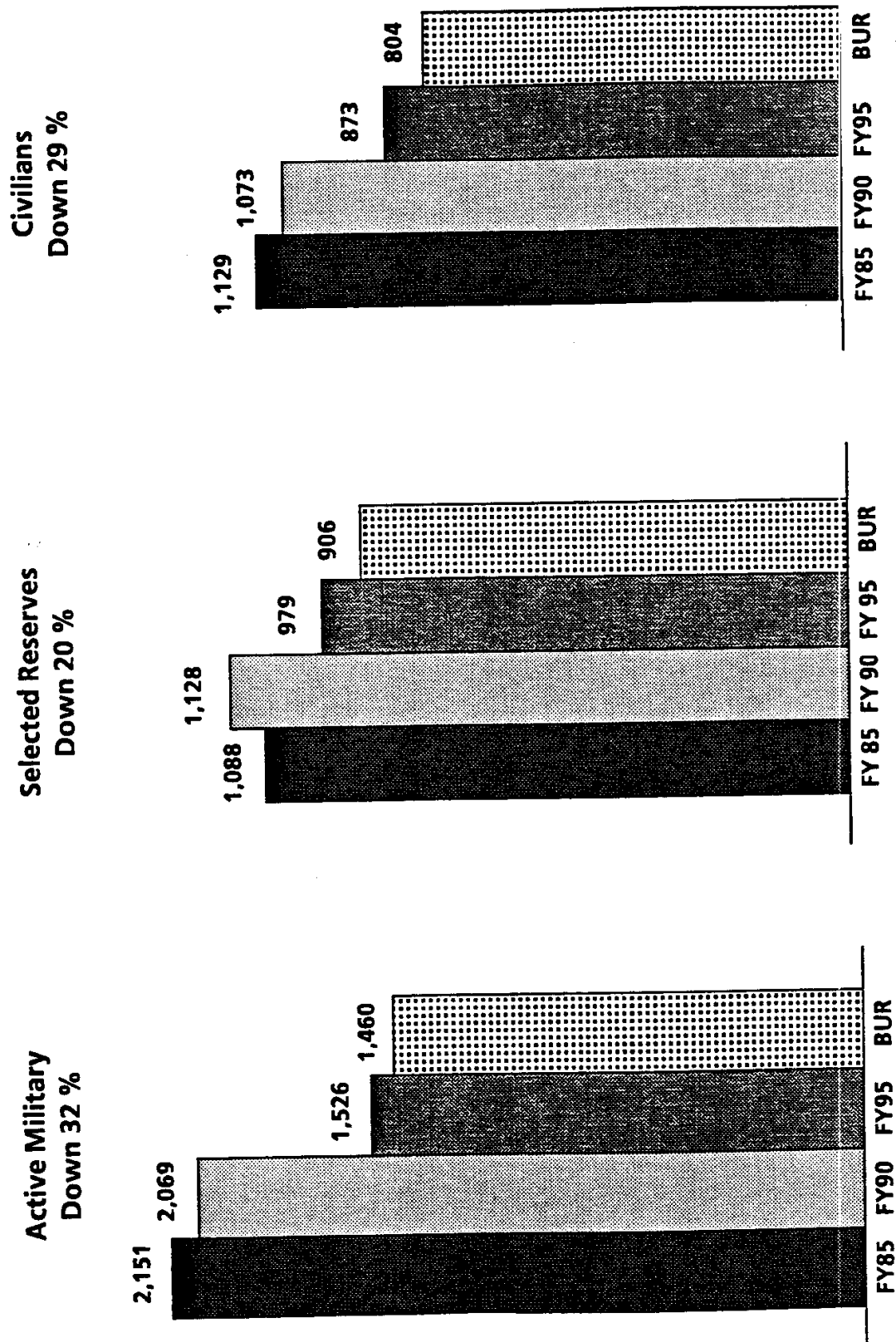
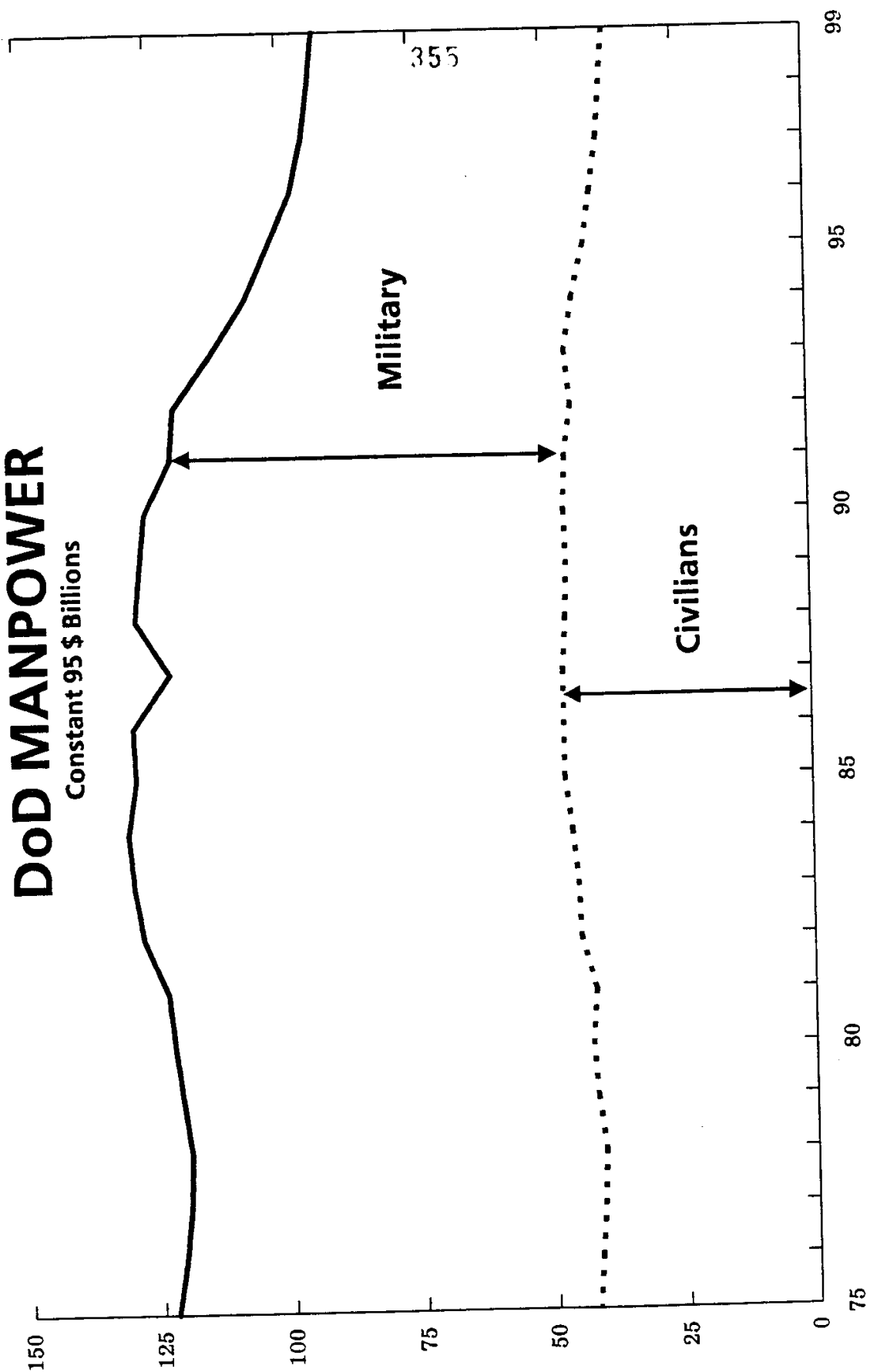


Chart #4

DoD MANPOWER

Constant 95 \$ Billions



PRIORITY ON READINESS

- While Force Structure is Down 7%, O&M Funding Increases 5.6%
- Budget Fully Funds Service Optempo
- While Weapons Inventories Shrink, Depot Maintenance Funding Increases 20%
- Steady Budget Levels for Recruiting

ANNUAL OPERATING RESOURCES PER UNIT

(1993 = 100)

	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
<u>Combat Battalions</u>			
● Army	100.0	102.5	114.0
<u>Ships</u>			
● Navy	100.0	108.1	110.7
<u>Primary Authorized Aircraft</u>			
● Air Force	100.0	109.3	111.7

OPERATION AND MAINTENANCE Costs Per Military End Strength (1993 = 100)

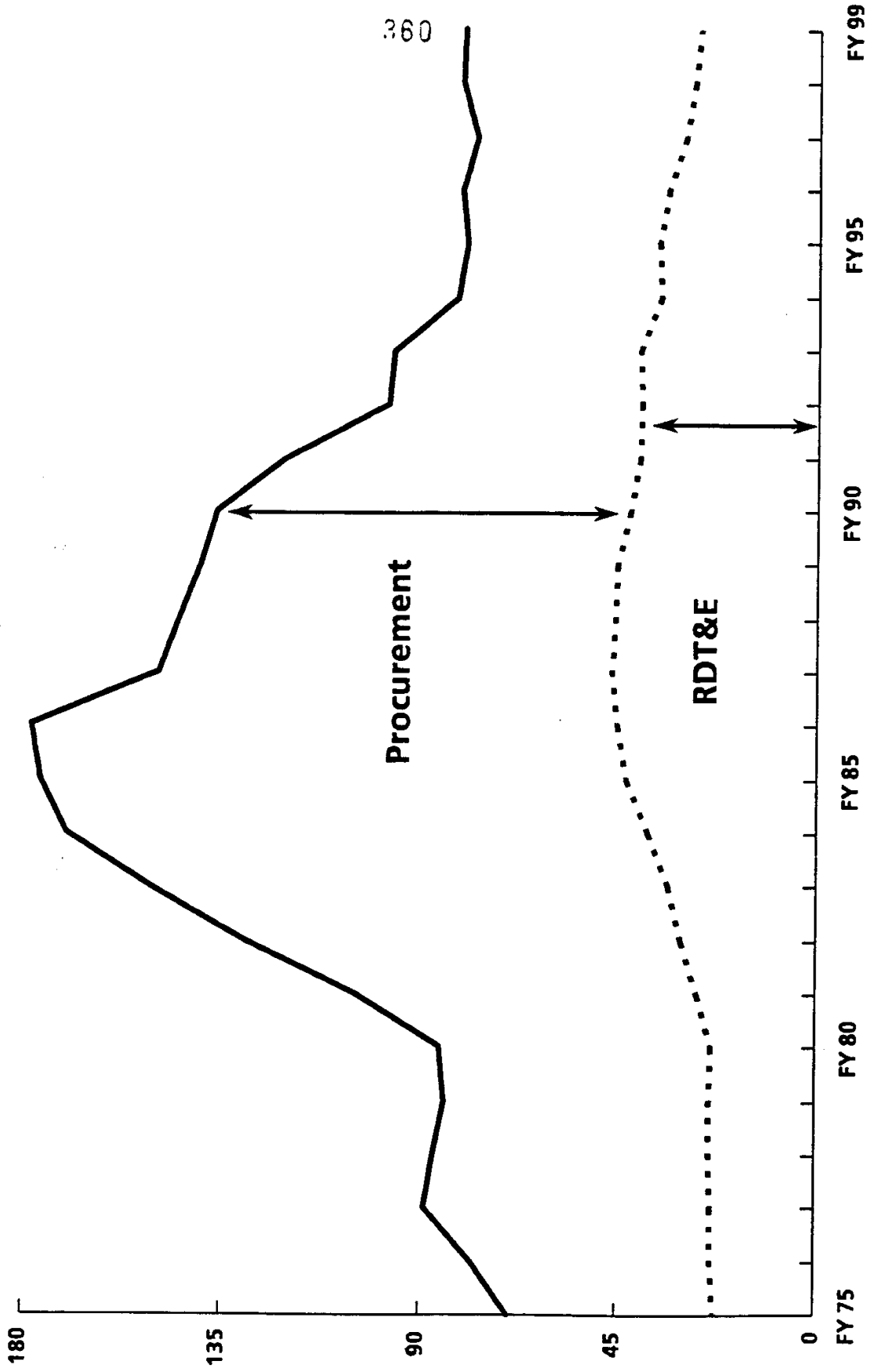
	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
● Army	100.0	96.9	109.4
● Navy	100.0	104.5	109.1
● Air Force	100.0	107.3	117.1

BUR--ESSENTIAL MODERNIZATION PROGRAM SUSTAINED

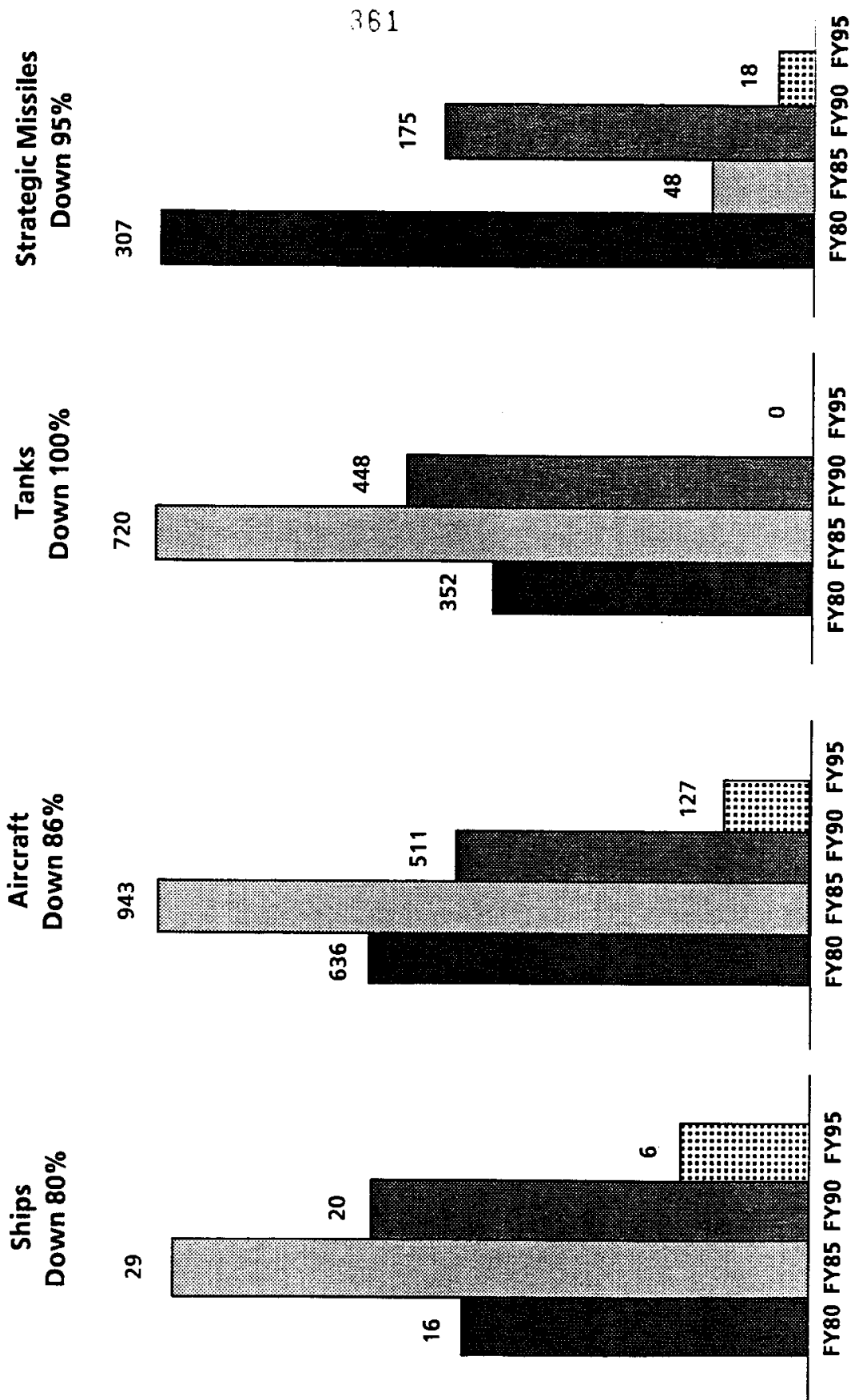
- Sustain Strong Science & Technology Base
- Continue Investment in Next Generation Weapon Systems
- Refocus Ballistic Missile Defense Program
- Sustain Strong Intelligence Program
- Preserve Key Elements of Industrial Base That Would Otherwise Disappear

MODERNIZATION FUNDING

Constant 95 \$ Billions



HISTORICAL PROCUREMENT DATA



DOING BUSINESS DIFFERENTLY

- Launches Campaign to Streamline Acquisition Process
- Launches Effort to Reform Financial Management System
- Provides Funding for Base Closures and Aid to Communities Losing Bases
- Provides \$5.7 Billion for Environmental Restoration and Pollution Prevention

**DEFENSE REINVESTMENT
AND ECONOMIC GROWTH INITIATIVES**
(\$ in Billions)

	<u>FY 1995</u>
Dual Use Technology Investment	2.1
Personnel Transition Assistance	1.0
Community Assistance	<u>0.2</u>
Total DoD Programs	3.3

Defense Outlays as a Share of GDP

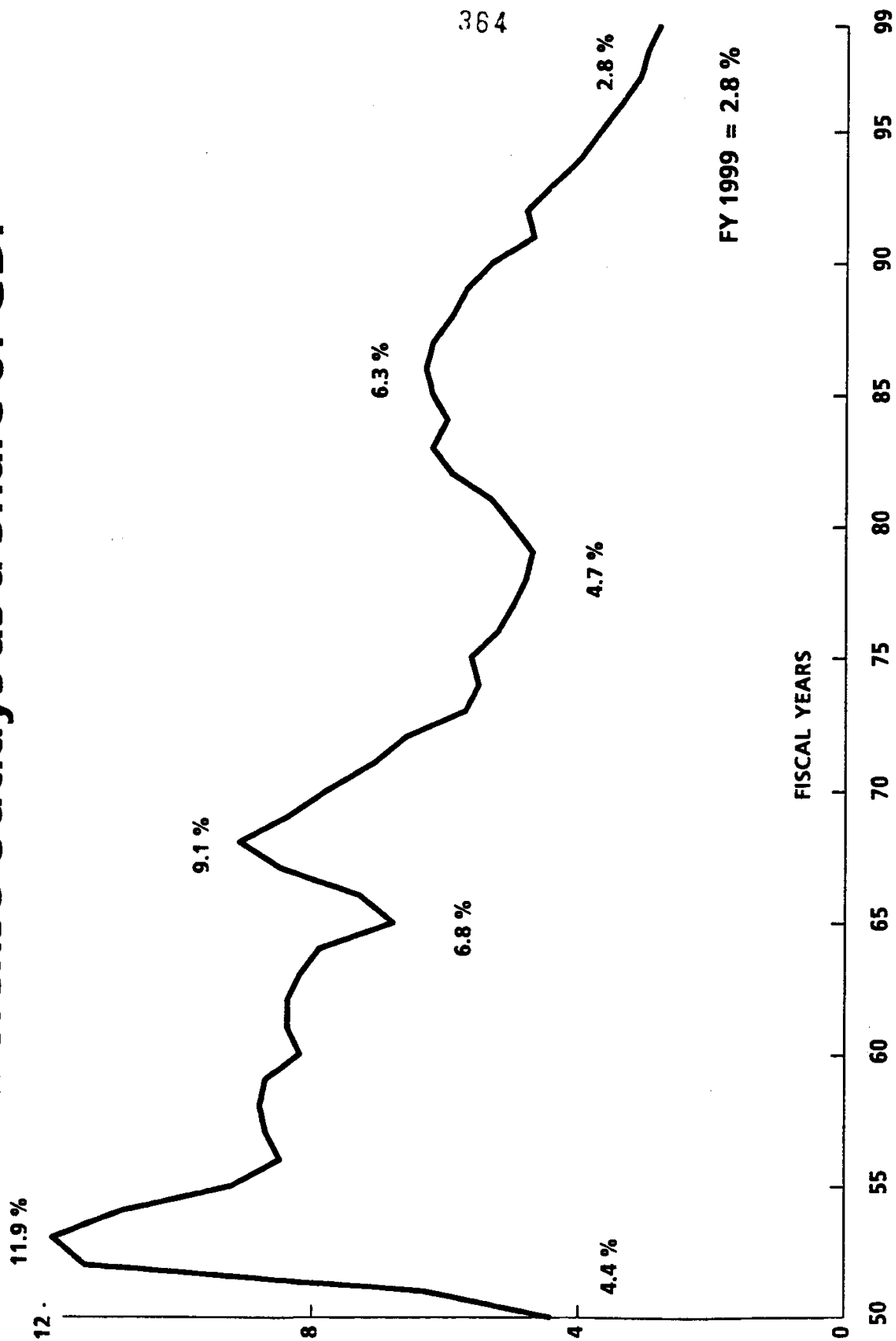
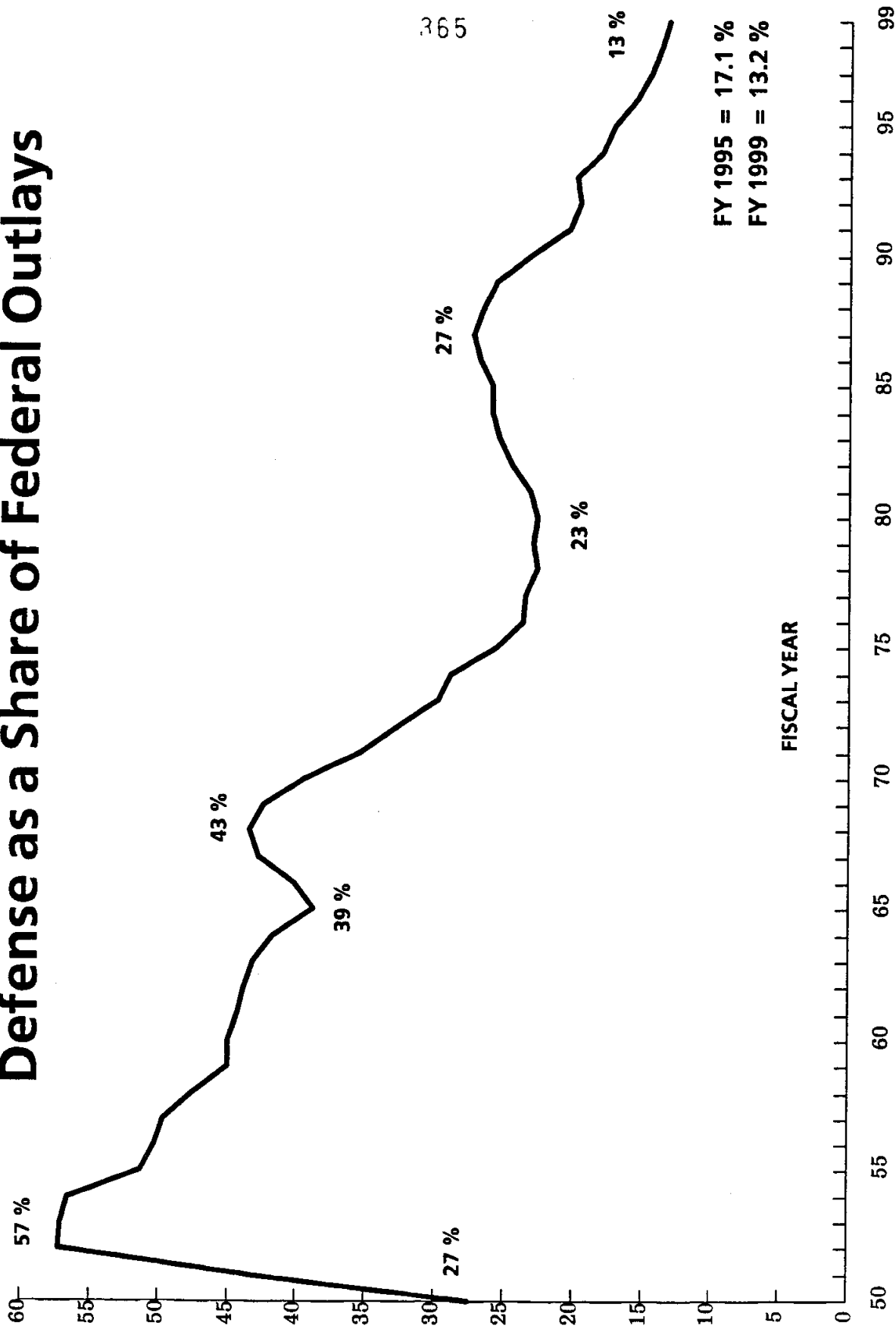


Chart #14

Defense as a Share of Federal Outlays



NATIONAL DEFENSE TOPLINE

(Current \$ Billions)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<u>BUDGET AUTHORITY</u>						
DoD Military	249.0	252.2	243.4	240.2	246.7	253.0
DoE & Other	11.9	11.5	11.9	11.8	12.0	12.1
Total National Defense	260.9	263.7	255.3	252.0	258.7	265.1
% Real Change	-9.0	-0.9	-5.9	-4.0	-0.2	-0.3
<u>OUTLAYS</u>						
DoD Military	267.4	259.2	249.1	244.6	244.7	245.5
DoE & Other	12.5	11.5	11.9	11.8	11.9	12.0
Total National Defense	279.8	270.7	261.0	256.4	256.6	257.5
% Real Change	-6.0	-5.2	-6.4	-4.5	-2.7	-2.4

FINAL POINT

- Budget is a Strategic Investment Plan
- Based on Common Understanding of Strategic Needs
- Connects Strategy, Force Structure and Costs

THE REUTER TRANSCRIPT REPORT

HEARING OF THE HOUSE ARMED SERVICES COMMITTEE

SUBJECT: FY '95 DEFENSE AUTHORIZATION REQUEST

CHAIRMAN BY: REPRESENTATIVE RON DELLUMS (D-CA)

WITNESSES: SECRETARY OF DEFENSE WILLIAM PERRY and GENERAL JOHN SHALIKASHVILI, CHAIRMAN, JOINT CHIEFS OF STAFF

2118 RAYBURN HOUSE OFFICE BUILDING

TUESDAY, FEBRUARY 22, 1994

REP. DELLUMS: If my colleagues would take their seats, the Committee on Armed Services will come to order.

Today we welcome Secretary Perry and General Shalikashvili for their first annual posture hearing before the House Armed Services Committee. Dr. Perry and General Shali will address the administration's proposed defense budget for fiscal year 1995, and the future year's defense plans for 1995 through 1999.

They have also kindly consented to answer questions concerning the current situation in Bosnia, but I hope that members will remember the importance of the budget in their decisions on how to best use their time.

This is the first budget based on Secretary Aspin's bottom-up review. At a recent hearing on the bottom-up review, some members raised concerns whether the bottom-up review force could be adequately funded within the budget proposed by the Clinton administration. That is a legitimate question for today's hearings, and we should look forward to the answer. But the question merely assumes, without inquiry, that we need the 10 fully structured active divisions, 12 aircraft carriers, 20 fighter wings, and all the rest of the force called for by the bottom-up review.

Other members were concerned that the bottom-up review cuts too deeply. These are appropriate concerns as well, and they are well meant. But they are hard to follow, given the bottom-up review only realized \$24 billion in savings, or just over two percent of the five-year defense budget from force structure cuts from the Bush-Cheney base force level. Remember that the base force was originally developed when the Berlin Wall was still up and the Red Army still existed. The similarity is more than accidental, because the same joint staff under General Powell designed both the force structure, the base force, and the bottom-up review packages. Thus we must ask instead whether the Pentagon is planning to cut enough of the Cold War force structure, and whether we are building the right sort of force for the next century.

The new force structure is rationalized around two simultaneous regional contingencies. During the Cold War the Pentagon planned to deal with multiple regional threats that it

feared might be coordinated by a Communist monolith, with a nuclear-armed, five-million-man Red Army in the vanguard. Now that that threat is gone, the old Soviet army is in disarray, and the newly independent states want to get into NATO. Yet we are still planning to spend about the same money on defense as we did in the Cold War 1970s, and 70 percent as much as we did at our peak in the Cold War 1980s.

Is all this money being spent in the best possible way? Shouldn't some of it be put to a higher use in improving our society here at home? The Pentagon recognizes the need to contribute to economic security, but no serious analysis of the trade-offs between military spending and domestic investment have been done. Couldn't some of the defense budget be usefully diverted from armaments into international development programs that might help reduce the causes of conflict, rather than providing military capabilities to intervene in a conflict we might have prevented? Couldn't some of the brainpower that goes into war strategies be better devoted to devising peaceful mechanisms for international and subnational conciliation and adjudication? If the U.N. were able to take up more of the burden of innovative peace-keeping and peace-making operations, then there would be less burden for the U.S. to carry. It makes sense for the Pentagon to do everything it can, including carrying a dedicated U.N. peace-keeping budget line on its book to develop these new conflict resolution capabilities of the international community.

Within the Department of Defense, a cold line analysis would show that we are still doing too much business as usual. The bottom-up review defines the threat as armored warfare, when American forces, in this gentleman's opinion, are more likely to be engaged in urban or rural peace-keeping, as in Somalia or Bosnia. Should we be developing the follow-on to the (centrifuge weapons for killing ?) tanks? Or should we be working on lighter body armor and immediate sonar location and targeting of sniper fire? It is not clear that we can do both. We are buying nuclear-enabled vessels for overseas presence and industrial base purposes, without a clear understanding of whether we shouldn't achieve or couldn't achieve the same objectives in other more efficient ways. Finally, the bottom-up review was not complete, giving inadequate attention to such important aspects as nuclear posture, strategic mobility, and logistics considerations in supporting two conflicts.

In the bottom-up review, the administration has accepted a force planning requirement more stringent than that adopted by the Bush administration, and it has predicated its force planning on the assumption of no major contribution from our NATO Allies, despite the general expectation that the use of force will be increasingly multinational in the post-Cold War era, and despite the expenditure of millions of dollars to enhance the NATO interoperability.

Dr. Perry, I appreciate your commitment to start doing business differently at the Pentagon. You have been the moving spirit in acquisition reform and in the support of dual-use technology for a strong commercial technology base for civil and

military needs. But, as you know, there is still a ways to go. You have said the Pentagon's financial management is in a mess, and in the C-17 we have a low-risk cargo aircraft that costs nearly five times as much as the closest commercial alternative, nearly as much as the super-secret B2, and one third more than the B1-B nuclear bomber.

The Pentagon must make progress in other dimensions of security as well. We cannot be unrealistic about the possibilities for controlling the export of dual-use technologies that can hurt our men and women in uniform, or protecting elements of our national technology base from foreign takeover. But these are both areas that need increased vigilance.

While the department is increasing its spending on environmental cleanup and prevention, a recent Inspector General's report suggests that the department may be violating, at least in spirit, the National Environmental Policy Act by not considering environmental impact in its major procurement decisions.

Secretary Perry and General Shalikashvili, I am concerned that with all of the international crises and internal management matters that you face, you and your associates will have precious little attention left to devote to training and equipping the right mix of forces for the post-Cold War era, if indeed each year you are embroiled again in cutting at the margins to fit a too large bottom-up review force structure into the constrictive confines of available budgets. I urge you consider whether further pre-planned force structure cuts in FY '96 and beyond might make all of your other tasks more achievable, by building down to a steady of platform on which innovative new policies, technologies, and military concepts can be built as we learn more about the real challenges that we face in the new era.

With these opening remarks, I would now yield to my distinguished colleague, the gentleman from South Carolina, for such time as he deems appropriate to make any comments he deems appropriate at this time.

REP. FLOYD SPENCE (R-SC): Thank you, Mr. Chairman. I too want to extend a very warm welcome to Secretary Perry and General Shalikashvili. Our two witnesses this morning have the toughest job in town, and I look forward to lending them all the help we can give them and then some.

Despite the confidence we all have in our distinguished witnesses, I am concerned about this administration's handling of national security during the past year, following what I consider a questionable White House decision-making involving the use of the military in Somalia and Haiti, and with Bosnia and North Korea looming on the horizon. I am troubled by our White House's approach to fundamental use of force questions. For example, the public deliberation over whether or not a (fixed ?) request for defensive Patriot missiles ought to be granted has been shocking. Likewise, the administration's on-again-off-again bargaining chip approach to the Team Spirit training exercises is embarrassing, and diplomatically counterproductive. And recent stories about executive branch deliberations over how many thousands of U.S. ground troops ought to comprise the U.S. peace-keeping contingent

in the event of a peace accord in Bosnia seemingly begs the more fundamental question of whether the American people support putting any ground troops into former Yugoslavia.

I believe that our distinguished witnesses are, and must continue to be, voices of reason and caution during executive branch deliberations over these and other national security questions. Yet, despite the level of my comfort with Secretary Perry and General Shali, never in all my years on the Armed Services Committee have the discrepancies between what I hear and sense inside the Beltway been more at odds with what I hear and sense out in the field. And it is very troubling. In a similar vein, the gap between declaratory promises from this White House about protecting military revenues and the importance of our men and women in uniform on the one hand, and the daunting realities of the President's defense spending reductions on the other, continue to widen.

Secretary Perry deserves credit for committing to protect a tempo training dollars in the O&M account. But readiness is far more than training dollars. In a qualified and motivated all-volunteer force, readiness is first and foremost about people. Yet today these talented young men and women are working harder, deployed away from home longer, and many will argue underpaid. Under current defense spending projections, these counterproductive trends will continue. The results seem to be a higher level of uncertainty and discontent in the force than at any time since the last -- since the late 1970s.

As such, I am at a loss to explain why the president has decided, for the second consecutive year, to send the wrong signal to the troops by proposing a cut in pay from levels endorsed by Congress less than six months ago. Congress rejected the president's military pay-cut proposal last year because our people are the heart and soul of military readiness. I suspect we will do it again this year. Military pay is a key readiness issue, and, unfortunately, the president's actions are speaking much louder than his words.

If Congress once again decides that the president is wrong and that our troops deserve a full pay raise, where are we supposed to find the approximately \$23 billion to pay for it over the next five years? DOD is apparently not going to get any relief from the White House. Even if the five-year defense budget were not underfunded, coming up with funds to provide a pay raise -- (inaudible) -- will be extraordinarily difficult. Congress cannot turn to the personal counts, because the end strength is already declining too rapidly, and there is certainly very little left to cut in procurement. Therefore, like last year, I fear that research and development will suffer again. In the long run, perhaps even the very greatest accounts we're all trying to protect.

In the end, I believe governing is about establishing and sticking to priorities, and last year demonstrated how many people in this room -- demonstrated that people in this room and Congress disagreed with the lack of priority our president has placed on adequately providing for the troops. Being sensitive to the wide range of factors beyond our (tempo ?) that contribute to

the readiness of our military forces is required to sustain the capable and motivated force consistent with this country's superpower status and global commitments. The military services are being squeezed and the results, already visible, will be as disastrous as they are inevitable unless this administration changes direction.

Trying to prevent this train wreck is a goal to which all of us should be committed. Mr. Secretary and General, it comes as no surprise that I and others on both sides of the aisle strongly oppose this administration's long-term defense plan. However, as we fight this uphill battle, we must also continue fighting to do the right thing for those in uniform -- from deploying Patriot missiles to protect U.S. military forces in Korea to seeking a full-time pay raise instead of a pay cut, I hope and trust we will all be on the same side during at least some of these battles.

Thank you, Mr. Chairman.

REP. DELLUMS: Thank the gentleman for his opening remarks.

Mr. Secretary, General Shali, we have your prepared remarks, and, without objection, both of your prepared remarks will appear at the appropriate point in the record, and I would yield to you, Secretary Perry, as we look forward to your briefing on the Fiscal Year 1995 DOD Authorization bill.

SEC. PERRY: Thank you, Mr. Chairman, Mr. Spence.

During my confirmation hearing, I laid out six responsibilities for the secretary of Defense, one of which was to prepare the annual defense budget that allocates resources and makes program decisions. This is the first such defense budget that I have been -- that I am presenting to this committee. This also, in many ways, could be considered the first post-Cold War defense budget.

The challenges we have in putting together this budget are illustrated very well by the opening statements of the chairman and Mr. Spence -- a very, very difficult task, trying to find -- to make the proper decisions in this budget. The budget is a powerful tool through which the secretary of Defense implements Defense strategy. Through this budget process, I set priorities for the department.

So today, as I speak to you about this budget, I have chosen in my opening statement not to give you great details on the numbers, but rather to tell you what the underlying strategy, what my priorities were, what choices that I was confronted with, and how I made those choices, and then that, I think, would set the proper tone for the debate, which was already engaged by the chairman and Mr. Spence.

For the budget truly is about choices. We can pretend that every decision is based on pure logic, but we know that it is not so, and we also know there's not enough money to cover every option, to hedge every bet, and therefore I invite the discussion, I invite the challenges into which we've already entered in this hearing.

I would like to start off, then, by telling you the five major themes which I will highlight in this presentation. These are the themes which basically underlie -- underlay my thinking

and the thinking of my senior staff when we put the budget together and we made choices.

First of all, we wanted to implement the bottom-up force structure. We wanted to protect a ready-to-fight force. We have some redirection of the modernization program, which I will describe to you, and, as the chairman indicated in his opening remarks, we are beginning major reforms to do business differently and then, finally, we are reinvesting some of the defense dollars.

My presentation this morning will take each of these five themes in turn. Let me go first of all to the force structure.

This represents, in graphical form, how the force structure is evolving from the Cold War base. You see, for example, we had 18 active Army divisions, going down to the Air Force, you see we had 24 active fighter wings. That evolves into the so-called base force put together by Secretary Cheney, which has a substantial cut. At the time that base force was put together, some of the elements of change in the geopolitical situation were in place, but not all of them, and therefore we have concluded we needed to go farther than that, and that's represented in the last column by the bottom-up review plan.

Intermediate between the base force and the bottom-up review is where this '95 budget will take us, and, again, let me take the Army divisions. They went from 18 to 12 in the base force, now, at '95, we are at the number 12 -- that is, we are at the base force level -- and the bottom-up review calls for going to 10, so there's still two more divisions to come out in future years, based on the bottom-up review.

Let me also skip down to the Air Force active fighter wings. We went from 24 to just over 15 active fighter wings in the base force. We are already, in this '95 budget, projected down to 13, already below the base force and, indeed, already at the bottom-up review.

So in the case of the Air Force, if the Congress accepts the budget which we're presenting here we will, in Fiscal '95, take the Air Force down to its -- what we consider to be its stable position of 13 active fighter wings.

Now, I want to go from there to talking about the effect of that force structure on manpower levels. That's reflected in the next chart.

As the force structure comes down, the personnel strength goes down, as well. We see, for example, the active military, which was a little over 2.1 million during the Cold War, that first red bar there represents Fiscal '85. Fiscal '90 is represented by the next line, where you see a slight decrease and where Secretary Cheney already was starting to bring down the active military forces. The last green column there represents the target of the bottom-up review, which is 1.46 million, and the intermediate yellow bar there shows you how far we will get to that goal in Fiscal '95 if the Congress accepts this budget.

I would point out that the downsizing of the personnel in the military forces will be nearly complete with this budget in Fiscal '95. It will be very close to the stable levels which are projected in the bottom-up review. I'm not going to cover the

other figures unless you have questions about them, but I will point out there's a comparable downturn in the civilians in the Defense Department. The net decrease projected there was 29 percent. The net decrease in active military was 32 percent. The reserves, as you can see, are not going down nearly as much. They have a decrease of about 20 percent.

So the message from this chart is that the -- there is a substantial drawdown, approximately 30 percent, and that by this Fiscal '95 budget, we will have nearly completed that drawdown.

The next chart now shows how that translates into dollars, and I have represented in this chart constant '95 dollars so that you have a basis, a fair basis, for relative comparison. In other words, inflationary effects are removed from these curves. And this shows you that from '75, early in the Cold War, through to about '89 or '90, the drain on the -- or the cost of manpower and personnel in the military budget was about constant at a level of approximately \$120 billion. And now you see after that the decrease in cost that's effected by the drawdown that I showed you in the previous two charts, and you see that by the end of the '90s, the cost of military and civilian manpower now is less than a hundred billion dollars. So the 30 percent drawdown of personnel is approximately matched by about the 30 percent drawdown in costs.

Now, if we go from there, we are saving that money, and the question is what are we doing with it. Some of it, which I will talk about later, is going out of defense budgets into other parts of the federal budget, or even into correcting the deficit. Some of it is going to other parts of the defense budget, and that takes me to our next category, which is ready-to-fight force. I have talked to this committee before about our priority on readiness. I have said many times to you that I believe it is our number one budget priority. Notwithstanding that, all of you have heard accounts of readiness problems. All of you who have been to bases and out in the field will hear stories about readiness problems -- backlogs of maintenance, of -- the whole set of issues which cause people to worry about readiness problems.

I would like to make several points about that. First of all, as secretary, if an airplane is broken or if an airplane is waiting for maintenance, I'm not going to go out and fix it. That's not the way I can expect to implement this problem, and my senior officers cannot, either. What I can do is make decisions about the budget which will make a difference, and what I am representing to you today is that this has been the first priority in my budget, and the numbers reflect that and that, as the numbers, as the increase in readiness and O&M dollars takes place, we should see continuing improvements in readiness.

But the second point I'll make to you is, while the drawdown is going down -- is continuing, and it still will be continuing through Fiscal '95, there is an inevitable turbulence that's caused by people going out of the service, and some of that -- some of that problem we will see reflected no matter what we are doing in the budget.

But the point I have to make to you today, and I hope I can make it successfully, is that we are putting this first priority

in our budget.

Number one, we have in the guidance, the defense guidance, which Secretary Aspin and I prepared and sent out to the service in the preparation for the budget, for the first time in the guidance, it said explicitly readiness is the first priority, and then to make that point further, it said, "Any other guidance we give you may be traded off in favor of readiness." That was a clear statement in the guidance. That reflected, then, service budgets to come back to us with substantial increases in the O&M account, and that's the point that this chart makes.

Here are, represented by four separate bullets, the first is that while our force structure is going down seven percent in this budget, the O&M funding which supports that force is increasing just under six percent, so whereas you might expect O&M dollars, readiness dollars to go down with force structure, we are taking exactly the opposite tack.

Secondly, this budget fully funds the service requests for operational tempo money. Third, that even though weapon inventories are shrinking -- and I'll show you more about that in later charts -- we have increased depot maintenance funding 20 percent.

And finally, we have a steady budget level for recruiting -- and in particular, the advertising for recruiting, which has been crucial in bringing top quality people into the Armed Forces -- we will sustain. A footnote on that is that, in the last year or last calendar year, we recruited approximately 200,000 young men and women into the Armed Forces. That was exactly the goal we had set.

Secondly, we have quality goals as well, in terms of the percentage of high school graduates, in terms of the percentage of these recruits who passed, were in the upper half of the intelligence score -- and last year was the second best year in history on those quality indicators. So, we have -- we see signs that concern us about recruiting. We see decreases in propensity to enlist, which this recruiting budget is intended to direct itself to. But in terms of the quality of the young men and women coming into the Armed Forces today, it is as high as it has ever been in history.

Now, let me go on to the next point. We have -- there are many different ways we could try to represent funding -- the significance of readiness funding. It's very difficult to capture this in a single set of numbers, because readiness is a very complex phenomenon. It consists of dozens of different elements, and you measure it in near term readiness, medium term readiness, far term readiness. This chart tries to take a snapshot of how this budget relates to readiness, and it does it by putting together three numbers for each of three years here. And the numbers simply represent the increase in dollars in the O&M account per combat battalion, per ship, and per authorized aircraft. And it shows that for the -- in the case of combat battalions, that the dollars per combat battalion has increased from 93 to 95 -- 14 percent, for ships -- 11 percent, and for aircraft -- 12 percent. These are real dollars, inflation corrected.

Now, let me go to the next chart. The next chart looks at it a slightly different way, and it computes O&M dollars and divides it by military end strength. For the Army, the dollars per person in the Army is increased 9 percent -- from 93 to 95; Navy also 9 percent. The Air Force really took the guidance we gave them seriously this year, because in the Air Force, they have increased O&M funding per person in the Air Force 17 percent.

These figures, then, are not to suggest to you that everything is okay in readiness, but they're suggesting that what I, as the Secretary of Defense, can do about readiness, which is put more resources into it, put a priority on it, and also to use the Secretary of Defense position as a bully pulpit to call for readiness is happening. And I will defend this record against any discussion and any debate -- and I am prepared to do that during the hearing.

Let me go on now to the next issue, which is modernization. This first chart tells you the positive side of our modernization. The following charts will tell you the very negative side. These are the priorities which Dr. Deutch, the undersecretary for Acquisition and Technology, put on modernization -- first of all, to sustain a strong science and technology base. And you'll find that even though the Defense budget is going down over a long period of time, and in particular this year, that the science and technology funding remains constant -- in some areas going up.

Secondly, we still have some modest -- and I would emphasize very modest -- investment in next generation weapons systems. Third, we have refocused the ballistic missile defense program. We've testified earlier to this committee about the nature of that change. But basically, it is dropping the space based and the continental defense aspects to a much lower priority and putting our major emphasis on moving towards an operational theater missile defense system.

A fourth point is we are sustaining a strong intelligence program. I strongly believe that in the very complex security issues we face today, that we need more than ever to maintain a strong intelligence. And finally, we are taking some efforts to preserve key element to the industrial base that would otherwise disappear. I have again testified to this committee before on one aspect of that -- for example, the decision to sustain the building of nuclear submarines. I concede to you that that is a controversial issue, but I repeat to you again, this was not done to help a company, to help a state, to help an employment issue. It was done for one simple reason, which was to preserve an industrial base which we thought was crucial to the future of defense.

Now let me go on to some of the negative aspects of modernization. I have argued before -- I've told you before, the readiness is being fully funded, even on an increase in funding. The overall budget is going down, so there has to be a bill payer. And we're now seeing the bill payer. The bill payer is our modernization program.

I have this represented on a chart which is again in constant \$95. It shows you that RD -- the R&D account, which is the bottom

aspect of this -- is remaining, through fiscal '95, only a slight decrease over its peak, but that the procurement account is precipitously decreasing from its peak in about '85, down to the present in '95. Without going into specific detail on the chart, let me just point out that that decrease in procurement is approximately \$100 billion. This is a big decrease. And anyone that says that we are not revising our budget, revising our programs to reflect the changes in the Cold War, I invite them to examine this chart.

Now, I want to make one other point from this chart, which shows, as I said, this very dramatic decrease in the procurement dollars. One of the reasons we can -- from a military point of view -- afford to make this big a decrease in procurement is because our force structure is decreasing. And we get two benefits from that. The first benefit is that there are simply fewer wings and fewer divisions, therefore, we obviously need fewer aircraft and fewer tanks. But it's also true that for a period of time, perhaps five years, we have excess inventory in some of these categories. And therefore, we can live off that inventory for a number of years. And that is reflected by that drop that goes down to about fiscal '95.

Now, it perhaps doesn't show up too clearly on this chart, but from fiscal '96 on, we are showing procurement starting to increase again. And this is because we have used up that excess inventory at that time, and we need to get back to more stable levels in procurement.

There is a fundamental issue in this chart, which I'm not going to discuss today, but which I've discussed at other times with this committee, in what happens to our defense industrial base in the face of this precipitous decline in procurement and R&D. But we have a very difficult problem sustaining a viable defense industrial base, in the face of \$100 billion decrease in what they would look at as their market. And this chart illustrates the depth of that problem and the seriousness of the concern.

Nevertheless, I represent to you that we can sustain this program from the military -- this cut in program from the military point of view for the reasons that I have already given you.

Let me go on to --

REP. DELLUMS: Dr. Perry, just very quickly.

SEC. PERRY: Yes.

REP. DELLUMS: The thrust of this chart is that, on modernization, is that, with respect to R&D, you increase a little over a billion dollars, but there -- from your perspective -- is a dramatic decrease in procurement, because for a while, you're, quote, "living out of hide," as it were. You're living out of the inventory, and then about '96, '97, you start to move up because at that point -- that's the rationale, as you look at this five year plan, for the procurement going up in the out years --

SEC. PERRY: Yes.

REP. DELLUMS: -- because for a little while, you're living on inventory.

SEC. PERRY: I want to be very clear, though -- it's not going up to anything like the levels you see at that peak there. But it will be going up modestly above the bottom, which will occur about fiscal '95.

REP. DELLUMS: Thank you.

SEC. PERRY: The next chart illustrates the effect of some specifics on this procurement. Here we have procurement data for fiscal '80, '85, '90, and '95. And I want to call your attention to the second and fourth bars in each of those categories, which is from fiscal '85 -- the peak of our procurement -- to fiscal '95, which is the budget we're submitting to you today.

On the number of ships, which is the first set of charts there, we're going from 29 to six. -- that is an 80 percent decrease in ships. And those of you who are working -- who have ship-builders in your district, those of you who work -- follow the ship-building industry will understand the dramatic impact that's having on the ship-building industry.

The next one is no less dramatic. These are aircraft that we buy. In fiscal '85, we bought 943 aircraft. This budget proposes to buy 127. This is a decrease of 86 percent in the number of aircraft we're buying.

The third was even more dramatic -- the number of tanks. In fiscal '85, we bought 720. This budget, we are proposing to buy zero. We don't need more tanks right now. We do -- are faced with the problem of how do we maintain the defense industrial base, because we will want to build tanks, you know, on -- sometime into the next century. Our answer to that is that we're taking the M-1 tank, some of the M-1 tanks, and upgrading them, and that the factory that would be building new tanks will be doing that upgrade program. And that is a way -- not a fully satisfactory way -- but a way of maintaining that industrial base, so that when we get into the next century, when my successor or my successor's successor are faced with the problem of having a tank building capability, there will be something in place that can do that. And the last one -- (inaudible) -- strategic missiles, and those are down 95 percent.

Let me -- that's the last comment I was going to make about procurement -- I think the most dramatic, and I would summarize again that between the decline in the top dollar on the Defense budget and the increase in the amount of money we're spending for readiness, there has to be a bill payer. One of those bill payers is forced structure -- a 30 percent or so decrease in forced structure. That was not nearly enough to accommodate it. The bulk of the dollars are coming out of our procurement account. And we have a whole set of consequences that are coming from that -- not the least of which is the difficulty of maintaining a reasonable industrial base on to the future.

Let me go on now to the doing business differently. One of our hopes -- no, one of our problems is, with the down-sizing, we have to do business differently. We cannot maintain the infrastructure that was built up during the Cold War when we have large force structures and large procurement activities. We cannot maintain the overhead and the infrastructure or we will be spending all of our defense dollars on infrastructure and none of

them on force. So, we are being driven to do business differently.

The second aspect of that, though, is that by the late '90s, when we start having procurement increases again, we need to find some way of getting the dollars to do that. And our best bet of finding those dollars is by having -- bringing our overhead down, bringing our infrastructure down -- and to do that, we have to do business very differently.

I have talked with this committee most very recently about acquisition reform. I've talked about the reform of our financial management systems. I repeat again to you that if we cannot get those reforms, then the problems I've already described to you are going to be greatly compounded -- and we end up with a budget which is all overhead, and all tail and no teeth. So, this is a very important issue.

But I also want to caution you that the major programs we have underway in acquisition reform and financial reform and in base-closing do not save us dollars in the near term. There's no savings in the '95 budget -- '94 budget -- there were no savings in the '94 budget. There are no savings in the '95. And there will be no -- virtually no savings in '96. Indeed, the contrary is true. We have to spend money in each of those three years in order to save money in the out years. This is an action we're taking -- again, for my successor, not for me -- because to close bases -- closing bases costs money, introducing acquisition reform costs money, introducing financial management reform. All of these are investments we're making for the future. But we must make those investments so that we are better prepared to deal with these problems of a smaller force structure and a smaller defense budget towards the end of this decade.

Now, let's list some of the things that we're doing. These are all very familiar to this committee, so I won't linger on them: Reforming the acquisition process, reforming financial management, the base closure. And there's a fourth point, though, that I haven't made yet, and it has to do with environmental restoration. This is not something we're necessarily volunteering to do. This almost \$6 billion in this budget for environmental restoration is required by law or regulation, and that is the bill we will have this year for doing that.

But I also add there pollution prevention, and this is something we are volunteering to do; that is, we are creating an active and a vigorous program to prevent pollution, again, so that my successor will not be faced with bills like this in the past. And you should judge our program in this area, first of all, by whether it is complying adequately with laws and regulations, whether that \$6 billion does that; and secondly, whether we are taking vigorous enough steps to prevent pollution on our military bases, so it will continue to cost money on into the future.

The next chart shows you the relatively small portion of this budget which goes to defense reinvestment. The biggest reinvestment that comes from taking money out of the defense budget is into other parts of the federal budget or into deficit reduction. But a small part of this is being reinvested by

defense, and there are several items on here, the most significant of which and the largest of which is our dual-use technology investment.

This is the program by which we are funding research and development useful to the Defense Department but which also will be useful in the commercial field. And therefore, it gives our defense companies an opportunity to convert over into commercial production and gives our economy the benefit of some of the really astounding technology that we have in the Defense Department. This budget has gone up every year for the last three years, and it will be sustained into the future. This is not a one-shot program. This is something we plan to invest in continuously.

There are two other items on here which have to do -- the personnel transition assistance and community assistance; simply the funds that we spend to mitigate the effects on the personnel affected by the drawdown and the communities, particularly those communities that are affected by base closing. We have instituted a vigorous and, I think, very effective program in assisting communities affected by base closing. And although this is a small amount of money in the budget, it is money which is very high-leverage for the communities that are involved.

Now I want to go from there to looking at the overall defense budget. And there are several ways of representing this. This is a particularly interesting chart because it shows the defense outlays as a share of the gross domestic product. And you see here a canonical downturn since the peak of the Korean War, where we had about 12 percent of the defense budget going into defense, to 9 percent during the peak of the Vietnam War, roughly 6 percent during the buildup during the Reagan administration, and then finally down to 3 percent projected under the bottom-up review, slightly under 3 percent.

Fiscal '95, not shown on that chart, will be about 3.7 percent -- 3.4 percent. Fiscal '95 will be 3.4 percent. So this budget being submitted to you today will take us down to 3.4 percent of the gross domestic product. There's another way of representing that, and that is the defense budget as a percentage of the federal budget, and the next chart will show you that.

Now you see the same phenomenon, but now measured against other expenses in the federal budget. And we see the Korean War peak much more dramatically here. It was 57 percent of the federal budget during the Korean War, 43 percent during the Vietnam War, 27 percent during the Reagan buildup, and it's projected to go down to 13 percent of the federal budget by fiscal '99. The budget submitted to you, the fiscal '95 budget, brings that down to 17 percent, on the way down to 13 percent. So these represent -- I think these can be fairly described as dramatic adjustments to the changes in the Cold War and a substantial reinvestment from defense into other parts of the federal budget.

Now, finally, I want to show you what that amounts to in aggregate form in actual dollars. Now we're not talking about compared with other things; just within the defense budget. And the future years' defense program submitted to you today calls

for roughly \$252 billion for DOD military. If we add the Department of Energy accounts to that, it comes to a total of \$264 billion almost. That represents about a 1 percent decrease in real terms from the budget last year.

The future years' program show requests for budget, projections of budget, that are approximately the same in then-year dollars but represent significant decreases in real dollars. For example, in '96 and '97, the decreases are 6 percent and 4 percent. In '98 and '99, you see we're projecting essentially flat budgets. This represents primarily the effect of the increasing procurement budgets during those years which I described to you earlier.

And finally, the last chart, just to sum up the points I've made to you, while this budget presented to you is indeed a budget, it also represents a strategic investment plan. And I've tried to give you this morning the underlying rationale behind the strategy which led us to the choices that we made. It is based on uncommon understanding of strategic needs that was defined by the bottom-up review, and that gives us a basis for discussion with the Congress and with the public on the connection between force strategy, force structure and dollars.

And this is the level on which we would suggest that the budget should first be debated. Have we made the proper choices? Have we devised the right strategy? And has that strategy led us to the right choices between force structure and readiness, between modernization and force structure and between R&D and modernization? And I have represented to you as well as I could the thinking that was in my mind when we put this budget together and approved it. And after General Shalikashvili has a chance to describe the military rationale for the budget, we will both be open for any of your questions and discussion about it. Thank you very much, Mr. Chairman.

REP. DELLUMS: Mr. Secretary, we thank you for your opening remarks. We would now yield to General Shalikashvili.

GEN. SHALIKASHVILI: Thank you very much, Mr. Chairman, Mr. Spence, members of the committee.

First of all, since I became chairman some three and a half months ago, I've had the opportunity to visit our forces here and overseas, in Korea and Somalia and Hawaii and in Europe, and in Europe as recently as last Sunday. And I want to, first of all, report to you that they are continuing to do a magnificent job. They are guarding our nation's interests and accomplishing the many missions we have assigned them with every bit of the courage and the skill and the enthusiasm that Americans have learned to get from our armed forces.

Now, the bottom-up review identified four long-term dangers to our security and to our interests. Through a combination of engagement, continued but significantly reduced forward presence of our forces in critical regions, through partnership with other nations to create conditions of peace and stability, and through preventative actions such as arms control agreements, we deter and combat these dangers. Our emerging strategy is proactive and our armed forces are already taking a proactive role, one that varies from region to region as our objectives and the

circumstances and conditions themselves vary.

Our objective in Southwest Asia is to prevent Iraq and Iran from destabilizing the region; in Northeast Asia, to deter North Korea from attacking South Korea and to support counterproliferation efforts. As well, we are serving the larger purpose of maintaining regional stability all around the Pacific Rim. In Europe, we are maintaining a significantly reduced but still sufficient forward presence to support NATO and our alliance objectives. Within this hemisphere, we are fostering peaceful and stable conditions by remaining engaged with our regional neighbors, by enforcing the U.N. sanctions against Haiti, and by keeping a very watchful eye on Cuba.

The geostrategic breadth of our interests and the number of regions critical to our interests whose stability and security depend absolutely on the commitment of our forces make it clear that we need to maintain the ability to respond to two near-simultaneous major regional contingencies. Were we to become involved in a major response to aggression in any one of these regions, it is entirely possible that another of these nations would be tempted to attack its neighbor if it believed the U.S. too weak to deal with two simultaneous contingencies.

So this then becomes the corps sizing requirement of our strategy. The forces and capabilities we are recommending and that Secretary Perry just outlined are lean. In fact, I would characterize them as very lean but sufficient. Could we cut deeper? My answer is no. If we do so, we will put our country in a straitjacket, one that will eliminate the flexibility and strategic agility our nation requires. I believe the smaller structure can do the job with an acceptable risk if and only if we meet two assumptions. The first is that we protect and improve the readiness of our forces. The second is that we continue to improve the capability of our forces. And I believe this budget does both.

Let me start first with readiness. All of you have been very supportive of the need to protect readiness. All of you know what we went through after World War II, after Korea, and again after Vietnam. There was a cycle of declines followed by disaster that we cannot and we must not repeat. And we are not repeating it.

As Secretary Perry just pointed out, the operations and maintenance budget authority will rise 5.6 percent in fiscal year 1995. And this will be applied against the force structure that is 7 percent smaller, one with a smaller inventory of military bases and equipment. It fully funds the steaming days, the training hours and the flight hours at levels that military commanders believe are essential. As well, the increase in depot maintenance funding of nearly 20 percent will go a long way toward ensuring that our equipment is kept ready to fight.

The point is that we are breaking the bad habits that undermined readiness in the past. Our forces will continue to be the most ready and the most capable in the world. We must ensure that they are ready to win and to fight, of course, whenever and wherever we ask. Frankly, you all are very well aware that we have lots of commitments. Our forces are performing all the missions that I spoke of earlier and a great deal more, from

helping to stem the flow of drugs into this nation to enforcing the Camp David accord in the Sinai, to supporting the U.N. mission in Somalia, to responding to humanitarian missions such as the most recent earthquake in California. But our forces are doing these multiple tasks magnificently. However, this raises several probreadiness. This is an imperative. When the structure gets as lean as ours is becoming, it means there's not nearly as much slack as we were able to afford with the larger structure of the Cold War. Protecting our readiness is going to require two tracks.

The first track is that we in the armed forces and the Department of Defense have to remain watchful. The services have to continually assess and monitor unit readiness. And the joint commanders have to assess the readiness of all of our forces to perform their missions. And within the department we are going to have to protect the industrial base, and the mobilization base, to make sure we don't allow our vital capability to atrophy or to disappear, leaving us with a future hole in our defense when we can least afford it. We have to be so good at this, in fact, that we can tell you, the Congress, well in advance where problems are likely to occur. And this leads us to the second track. When we do come to you, we are depending on you to cover our expenses to protect this vital commodity called readiness.

Now, let me turn to the other assumption, the one I spoke of earlier, about our need to grow in capabilities as we reduce the structure. This increase in capabilities must come from a number of sources. It will require a degree of modernization at the appropriate time, as Secretary Perry mentioned. It will require the enhancements that I recommended in the bottom-up review. And it will require those of us in the Department of Defense, particularly those of us in the armed forces, to be bolder in challenging how we do business, and to be relentless in finding and implementing ways to make our forces more and more effective on the battlefield.

What specifically am I talking about? When you go from an M1-A1 tank to the M1-A2 tank, it increases the lethality of a tank company by nearly 20 percent. If we had had the C-17 for use in our deployment to Somalia, it would have doubled the cargo we were able to bring through the airfield in Mogadishu. When we bring our navy in closer to the shoreline, which is a core thrust of its lateral doctrine, we increase the air sorties and the naval gunfire support available to the war-fighting commanders. The bottom-up review lists a number of enhancements that will make our forces more capable -- strategically, operationally, and tactically. It is imperative that we maintain support for them, from R&D through fielding, in this and in the outyear budgets.

As I noted earlier, we are not merely reducing. We are restructuring our forces to accomplish a new strategy. We must improve our strategic agility to respond to diverse and widely separated contingencies. This means we have to continue to make our investments in expanded strategic lift and prepositioning of stocks in locations that will increase our global agility. And, as I pointed out earlier, we have to make continuing, although selective, investments in modernization. We must make sure that

our smaller forces remain capable of defeating any two regional adversaries. This is why we must increase our capabilities, because even if we protect the readiness of our forces, and avoid having a hollow force, if we fail to increase the capabilities of the smaller force, then in five or ten years we will have a hollow strategy.

Now, there is one last point about this future force, and that is our people. I saved this point for last, because it is so important. It is the very foundation of our military excellence and our ability to fight and win. I cannot emphasize strongly enough what great men and women we have in our ranks today. They are remarkable in every sense of the word. When you look at what they are doing around the world, in all the places I have just named, it is astounding. When you think of their courage, the hardships they endure, the tough and demanding lifestyles that accompany military life, and the sacrifices that they and their families willingly make for this country, it is humbling. They are talented and dedicated. And if we want to retain them, and continue to recruit more like them, then we have to take care of their welfare and the welfare of the families. They are a Super Bowl team, but without Super Bowl wages. The very last place to look for more savings is in their paychecks and in what we provide in our quality-of-life programs for them. I know that you understand this, because this committee and the Congress have been very tough in holding this line. And I ask for your continued support.

I would like to conclude with one or two observations. The first is a fact of American history. Since our nation was founded, we have never experienced a 20-year period of uninterrupted peace. Put another way, no soldier in this country's history has ever completed a military career when the nation did not engage in armed conflict at least once. This is the reality that underscores our need to remain ready.

By second observation is simply a reminder, a reminder of how long it took, and how very expensive and difficult it was, to build this outstanding military force we have today. Most of you here on this committee were very influential in its construction, and all of us owe your great debt. This reminds us of our need to continue to shape and equip our force for the future. In the past we were on a roller coaster of declines, followed by expensive surges, followed by another decline. This budget tries to put us on a steady line, one through which we maintain our balance in every critical measure of our armed forces. We have a strategy, and we have determined the leanest force structure capable of fulfilling this strategy. But in order to fit that very lean structure to the strategy, it is going to have to grow in capabilities. There are three factors that will make the difference: readiness, eventual modernization, and people. I assure you that my focus will remain on these three areas, and I ask that you keep them in your field of vision as we work together to ensure that our nation is as well defended in the next century as it is today.

Thank you very much for this chance to offer my views, and I look forward to your questions.

REP. DELLUMS: General Shali, we thank you very much for your opening remarks. And we would begin with Mr. Spence, followed by Mr. Montgomery.

REP. SPENCE: Thank you, Mr. Chairman, and thank you, General, and Mr. Secretary.

As I understand the bottom-up review, this was a study of our nation's potential threats and at the same time the commitments we owe throughout the world. And this review told us in effect what kind of military we'll need, the shape and form of it, to meet these threats and commitments we have. As I understand further, this administration is committed to this bottom-up review force structure. The problem I have is not so much with the bottom-up review force structure we have proposed, but that the defense budget we are being presented with last year and this year, and the remaining years in the five-year plan, will not buy the kind of force that we are talking about. Secretary Aspin estimated the shortfall would be something like \$50 billion -- that's been explained away a little bit down somewhat to 20 or 30 billion dollars. I've heard unofficially it's going to be much higher than that, much higher than the \$50 billion even. The question I have is how we can explain this mismatch. Put another way, Mr. Secretary -- maybe General too, you've talked about -- we saw the chart that was up here about how defense spending has come down drastically really. Already we've cut back on the last two administrations. We've been building down steadily. This last year's budget reduced about 10 or 12 billion dollars, if I remember correctly, the projected 120 or 130 billion dollars of cuts we were supposed to endure this defense budget. If we cut about one tenth of that amount last year, the question I have is how can we cut nine times that much in the next three or four years. That's my main concern, and I would certainly appreciate you all helping me out with it.

SEC. PERRY: Mr. Spence, let me make two specific comments on your observations. The first is a technical issue concerning the so-called shortfalls in this budget. When we put the budget together, we put it together to carry out force structure and the modernization readiness called for in the bottom-up review. And it was approved in the executive branch on that basis. Part of the calculation figured into the budget, since we're projecting now five years ahead of time, is estimates of what inflation will be during the next five years. And, as you know all too well, predicting inflation even a year in advance is a difficult if not impossible task. But the way the Congress requires us to submit our budgets in advance, we have to estimate inflation. And we take the Congressional Budget Office estimates to do that. Between the time we first put the budget together and the time we were ready to submit it, the CBO changed their predictions of inflation. It was not much -- it was a fraction of a percent per year over five years. But with the size of the defense budget, even that small a factor translated into a number which as the first estimate we got was \$50 billion, and the last -- pardon me, was \$40 billion -- and the last estimate we got was \$20 billion. We were not making the estimates; the CBO makes the estimates. And we used the last number which shows, then, a shortfall in the

budget of \$20 billion. If you simply change the inflation estimate, it changes the requirement for top line by that amount.

A further confusion factor, when we first made up the budget, we had not accounted for the pay raise, which the Congress authorized. And the effects of that over the five year budget were another, roughly, \$10 billion. So, to add to the \$20 billion inflation, there was another \$10 billion, which made it \$30 billion for the total shortfall. Of that \$30 billion, the president authorized an increase in top line to account for the pay raise through this five year period. And that brought the \$30 billion shortfall down to 20 billion.

So, to summarize, the difference between 30 and 20 was accommodated by the president increasing the top budget for the pay raise. The difference between the 30 and the 50 were just two different estimates of inflation that we got at different times, and we ended up taking the latest inflation estimate. Of course, by the time we get to fiscal '96, which is the beginning of the budgets affected by this, and are ready to implement it, we may have still yet a different inflation estimate, and we may have, therefore, a different either shortfalls or increases -- depending on how that inflation estimate changes.

Let me make a more general comment, though, that -- I was just trying to answer the technical aspect of the question. You were really getting to a more fundamental issue, which is whether the budget here is sufficient to accommodate the bottom-up review.

In our judgment, it is -- as General Shalikashvili has said -- very lean, but sufficient. The two aspects of that that ought to be commented on is, first of all, do we have enough force structure in this budget to carry out the two MRCs? That's the best advice we have from our military authorities. That is a question which you could check with General Shalikashvili. But the second is, is do we have enough money to carry out the program we've laid out for you -- including the force structure. And there are three different areas where we could end up not having enough money, depending on what develops in the future.

The first, I've already described to you. There could be a change of inflation which would essentially erode the buying power of the top line, which we -- the president has already authorized us. And that would have a net effect of decreasing our buying power and, therefore, make it much harder to accomplish the budget -- unless we could get the top line increased.

Secondly, we could have poor performance or overruns on large programs. And there's been some history in the Defense Department of that. I don't need to remind this committee. That's a problem which we have, to a degree, under our control. And it's the function of how well we're able to manage our business.

And third, there could be unplanned and unfunded contingencies. And we have had a history of unplanned and unfunded contingencies. Fortunately, the last set of unplanned and unfunded contingencies, which all concerned Somalia and Bosnia and the operation we're conducting in Iraq now. The Congress has approved supplemental appropriations to cover those expenses, which amounted to about \$1.2 billion. Had it not been

for that, those expenses -- which came out of the services operating accounts, fundamentally -- had we not gotten that supplemental appropriation, that would have been a major deterioration on our ability to carry out the bottom-up review.

Maybe General Shalikashvili would like to comment further.

GEN. SHALIKASHVILI: Mr. Spence, I would only echo that, but address, perhaps, for just a second, the issue that Secretary Perry raised -- and that is the assessment whether the force structure that we are in fact buying is, in our judgment, sufficient.

I indicated in my opening remarks that it's sufficient only if we meet two conditions. One is the readiness issue, and the other one is if we make the force more capable than it is today -- clearly, more capable in such areas as strategic lift to get us there at the time that you need to get there, because you well understand that the later you get to the fight, the more you really need to recover that which you have lost. That also speaks to the issue of increasing our pre-positioning of equipment in strategic areas so we can get by with less strategic lift -- because clearly pre-positioning heavy equipment will save that -- save us from having to buy additional strategic lift.

It means that we have to buy the enhancements in precision munitions so the force is more capable. We are now looking very carefully at such issues that are critically important as intelligence -- whether we have sufficient intelligence assets -- command, control communications -- whether that's sufficient. Although, I must tell you that I don't think there is anyone in the world who would doubt the quality of our intelligence or the quality of our communications. The question is whether we have sufficient to cover two near-simultaneous contingencies. That we are looking at very carefully now. And, hopefully, in the near future we'll be able to answer to you.

All of those things, I would tell you, that we have looked at now, are not issues that prevent us from doing it, but issues that significantly raise the risk in any operation. So, what we are talking about is not whether we go from inability to ability, but whether we can bring the risk to an acceptable level.

REP. SPENCE: Mr. Chairman, I'd just like to follow it up please.

REP. DELLUMS: The gentleman -- (off mike).

REP. SPENCE: I didn't mean to take somebody's time for the answer really. You've given me more than I wanted. This pay-raise issue that we talked about -- of course, I think you'll all agree that's a big readiness issue as far as I'm concerned. And the military already has a gap between civilian and military pay. You said, Mr. Secretary, that the president had to provide in his budget for the pay-raise that Congress authorized last year. That was a 2.6 percent increase, as provided by law. But this year's budget cuts that back to 1.6 percent, which is really a cut in pay from the current law. And that was what was authorized by Congress.

Now, what figure -- aside from the fact that it's going to have some impact on readiness, retention, recruitment and all the rest of it -- what are we using now in this shortfall, the 2.6

percent we've got to come up with, or the 1.6 percent cut?

SEC. PERRY: If the Congress were to raise the pay-raise above the 1.6 below the inflation rate, which this budget proposes, to equal the inflation rate, then I can give you two numbers -- first of all, what the effect would be on the '95 budget, and secondly what the effect would be over the five year program -- the tail of that increase as you go down. Let me ask Mr. Hambre if he can comment -- this is Mr. Hambre, the Comptroller of the Defense Department. Now, with your permission Mr. Chairman, I'll invite him to join our panel.

REP. DELLUMS: (Off mike).

MR. HAMBRE: Thank you, Mr. Chairman.

SEC. PERRY: Please, proceed, sir.

MR. HAMBRE: Mr. Spence, as you know, standing law requires that pay be one-half of a percent below the economic cost index -- the ECI. It's the administration's proposal last year and this that there be an additional 1 percent reduction -- and that would be the contribution from federal employees to overall deficit reduction.

The budget requests that we are submitting provides for a 1.6 percent pay raise for fiscal year '95, which is the same level as was forecast last year for fiscal year '95. It is below the level that Congress provided last year. Last year, Congress provided approximately a 2.2 percent pay raise for military personnel, a higher pay raise for civilians in the form of a locality pay. We are proposing an identical pay raise -- military and civilian -- 1.6 percent. That would rise to 2.2 percent next year, and approximately 2.5 percent in the succeeding years.

A 1 percent increase would be required to bring us up to standing law, which would be a half a percent below ECI. I don't have the precise number, but that would probably be in the neighborhood of a billion dollars in fiscal year '95, if that were to be -- if the Congress were to provide it to the maximum extent allowed by current standing law.

GEN. SHALIKASHVILI: Thank you, Mr. Chairman.

REP. DELLUMS: Did that answer the gentleman's question?

The committee now will -- is proceeding under the five minute rule, and we recognize Mr. Montgomery followed by Ms. Schroeder.

REP. G.V. "SONNY" MONTGOMERY (D-MS: Thank you, Mr. Chairman, Mr. Secretary, and General Shali. And as the Chairman said, I only have five minutes. I have three areas to cover. And maybe a comment on my last subject. But some of us on this side of the aisle invited Hambre up to meet with us in November, being the Comptroller of the Defense Department. We'd heard about the problems on pay raise and inflation. And he told us of the shortfall. And then we were able to meet with President Clinton, and that what -- he did add back -- the president or someone added back \$11 billion, it would help some on the pay raise and the inflation. And we appreciate that.

Now, this figure goes to the Budget Committee, and I certainly hope we can keep the \$11 billion that was allocated in that, and the Budget Committee wouldn't reduce it by \$11 billion. So, I hope that you will be alerted to that.

And Mr. Secretary and General Shali, you're new to our

committee, and welcome. For a number of years, I've worked in the National Guard and Reserve area, and I just wanted to mention that. (Laughter.) And the National Guard and Reserve -- they're taking their cuts just like everybody else -- a 20 percent cut. And there will be some heartburn on February the 28th when I think you will announce what units in the Army National Guard and the Army Reserve will be reduced. And members of Congress will have some problems with losing some of these units. But I see where it had to be done.

Mr. Secretary, on your wording in your statement -- and this is rather nit-picking, but it is kind of important. You've got two fronts on a bottom-up review. You'll have a third front to deal with, if you don't start using the word National Guard. You have, in your report, you have Army Reserve, and the Army National Guard have the eight divisions you recommended. And also in the Air Reserve -- the Air Guard has a major of those units. And that's important that you do use the National Guard. I understand what reserve means -- it covers both, but I think if you would spell it out, it would maybe help you some.

And my last point is on recruiting. General Shali said, "It looks good out there." For the last month or two, some of us have been working, watching recruiting, and talking to the recruiters out there. And on all the services, the delayed entry program, they really don't have the numbers that they've had over the last two or three years. So, recruiting is going to be a problem, I'm afraid. And you might get the quality. And if you lose the quality, then your defense and your military goes down.

I -- have any comments on that recruiting?

SEC. PERRY: I don't want to be sanguine at all about recruiting. The positive picture I painted for you was the recruiting in 19 -- last year. It was the '93 figures. We have seen statistics that show us a decrease in propensity to enlist of a fairly substantial amount. What remains to be determined is whether appropriate recruiting, appropriate advertising, will help overcome that propensity. We believe that a part of that decreased propensity is a mistaken belief in the -- among the population that the Army is not recruiting people any more because of the draw-down that's going on. and, in fact, even as we are drawing down, we are bringing in young people at the bottom so that we have adequately -- considering the length of training -- is the time it takes, 15 year or so cycle, to get to battalion commander, we need to be bringing in young people at the bottom, too.

This is a matter of concern, and it's something that I can assure we watch very closely on a month to month basis. It's my judgment, if we are right in believing that we can overcome this decrease in propensity by getting our message out, then I will be relaxed on the subject you've raised. If we cannot, then we may have a more fundamental and serious problem. And we will keep watching that closely and keep you informed on it.

GEN. SHALIKASHVILI: If I may, Mr. Montgomery, in all my discussions with the services, despite the good year we had last year, they're all very, very concerned about recruiting, for the very reasons that Secretary Perry just mentioned. First and

foremost, they believe that there's a feeling out there that the military is no longer hiring, that we're in this downward trend and therefore don't need new people. Secondly, they are not -- they believe that advertisement is a very big part of it, that when you look at main sports events which are watched by the sort of folks that we would like to recruit and they no longer see advertisements about the military being a good, exciting place to be, that they simply forget about it, and so I was absolutely delighted when Secretary Perry, from the very beginning, stressed the importance of retaining the recruiting budget, because I think that's the key to it.

One issue that you did not raise but also gets to it is the issue of re-enlistments, and that, too, is an issue that we have to watch carefully. I just talked to our command in Europe, and I'm happy to say that re-enlistment in U.S. Army Europe, at least, is going fairly well, but it is also one of those indicators that we need to watch carefully, and so we ought to not rest on our satisfaction that last year was a good year. This year will be a lot tougher.

REP. DELLUMS: Ms. Schroeder, followed by Mr. Stump, Mr. Bateman, Mr. Kyl.

REP. PATRICIA SCHROEDER (D-CO): Thank you, Mr. Chairman, and I want to thank both of you. Let me just say it's been no secret I've been upset about Tailhook, but I really think we need a whole hearing on that issue, rather than just brushing it aside, because I do think it is so serious, especially with Paula Coughlin quitting. I think the message there was things aren't better for women, and we need to deal with that.

But let me put on my research and development hat, because I have many questions there.

First of all, my understanding is the third round of the TRPs is being held up because there's a rumor that some of our friends on Appropriations have earmarked some of those funds. We have tried very hard to keep conversion funds pork-resistant and to have this be a competition, and I certainly hope that's not true. If there is anything we can do as the committee to try and make sure that those funds weren't earmarked and that they truly do come out of the competition we have, let me know.

Secondly, as I look at your charts, I appreciated very much your comments, Mr. Secretary, about the industrial base, and I have several things I'm concerned about. As we talk about procurement going down, are we going to get in a position where the industrial base is going to insist that we lighten up on foreign military sales to protect the industrial base in that squeeze period? I mean, is anybody thinking about that at the Defense Department and, of course, that's been one of the areas that they keep trying to use for conversion money, too, of retaining the industrial base by promoting foreign military sales. So is there someone looking at that, and what can we expect?

I also worry a lot about space and the industrial base there. You mentioned the submarine issue, but when you look at what the Defense Department and NASA spends every year in space, we're putting about \$30 billion a year, and you would expect we ought

to be able to knock everybody's socks off. We ought to have the most going commercial space program you've ever seen, and yet every year, unfortunately, more and more of the space launches are moving offshore, and we are seeing ourselves losing a higher and higher percentage of that, so that the commercialization is shrinking. Why are we not doing a better job of this terrific amount of money we're putting in to space and getting more so we don't have to sit around, then, and keep that just to have any kind of an industrial space base, which is very concerning?

And one of the other questions I had is, looking at your funding charts, you show a contribution to the Department of Energy of about \$11 billion-plus a year. I assume, since we're I don't think developing a whole lot of new nuclear weapons, is this basically for our portion of the cleanup, or do we have a nuclear weapon component out there?

So, basically, I'm pleased that you're focusing on these industrial base programs and on the research and development. As you know, it ended up being the bill payer last year, which I think is a very dangerous precedent -- it's like eating our seed corn, and we shouldn't do that again, but we also have to make sure that when we have these competitions, they don't get earmarked by the Appropriations committee and that when we're putting this kind of money out there, we're really getting something for it, rather than having everybody becoming kind of a federal subsidy junkie, or that we suddenly have people saying we have to have all this money to subsidize foreign military sales to keep this as part of our industrial base.

So those are the three things that -- or four things -- that we had to deal with a lot last year, and I just wondered if you could flesh it out a little more from the charts we saw.

SEC. PERRY: Let me comment briefly on several of the points that you raised. First of all, I believe that the third round of the TRP, the Technology Reinvestment Program, is proceeding, the awards on that is proceeding. May I ask Mr. Hambre to correct me if I'm wrong on that?

MR. HAMBRE: (Off mike) That is proceeding.

SEC. PERRY: That is proceeding.

The issue of earmarks has been a continuing problem with the Technology Reinvestment Program. Now, what we are -- we get, I think it's fair to say, conflicting advice from the Congress on how to deal with that question, and what we are trying to do is resolve that issue with a major criterion, and that is that we maintain the quality of the program. Whether it's earmarked or whether it isn't earmarked, the test ought to be is it a high-quality program? Does it otherwise pass our tests?

On the foreign military sales, there are many proposals from many different corridors that we should take various actions to promote foreign military sales as a way of dealing with the economic issue faced by many of our defense companies. My position on that is that we should be, whenever we decide a foreign military sale is in the national security interest, we should be willing to promote it, but that should be the test, not the test of economic benefit.

On the commercial space program, I share your concern and

some of your frustration on that issue. This is not primarily a Defense Department, it's primarily a NASA issue, of course, but we do have some joint programs under way with NASA to assist in that regard, and we care. We care about the existence of the commercial -- a viable commercial space entity in the United States, because we are drawing more and more heavily on the commercial infrastructure as opposed to the dedicated military structure, and on the nuclear question, the budget here consists of both cleanup money -- and, as you know, those are very, very substantial expenses -- as well as efforts to maintain the industrial base. I don't think I should call it the industrial base in this area, but maintain a capability for reconstitution if we need that in the future.

(Inaudible off-mike comments)

SEC. PERRY (?): (This is sort of ?) approximately \$5.4 billion of the \$11 billion that we showed on the chart, is for environmental cleanup in the Department of Energy complex. Those are not funds that we contribute to DOE, those are funds budgeted by the Department of Energy, but they're under the budget 050 function. The remainder is for things such as nuclear testing, certification, make sure the ongoing safety work is in compliance for ongoing weapons certification.

I might also say, on TRP, Mr. Secretary, that -- one other issue that's still outstanding, we are proposing to you and will propose shortly a reprogramming of \$150 million into the TRP program in Fiscal Year '94, which would bring it up to approximately 700 -- \$674 million. We would need to have that acted on, and that would be required for the follow-on exercises.

REP. SCHROEDER: May I just ask -- is that -- that's not because they earmarked 150 million dollars somewhere else? You're adding this as additional?

+X: 'No, ma'am, that grew out of last year's authorization and appropriations conference, directing that we try to get as close to \$600 million as possible. That's aside from -- we would be doing that anyway, irrespective of the earmarks that are in the TRP program.

REP. SCHROEDER: Thank you.

REP. DELLUMS: Before the chair yields to Mr. Kyl, I would like to make two comments. First, the gentlewoman directed a comment to the chair regarding a hearing on Tailhook. The chair realizes that members have just returned from the most recent district work visits, so I'd like to refresh everyone's memory. There is a hearing already planned for March the ninth, full committee hearing. We're presently working on the format of that, and anyone who wants to make an input into that certainly is welcome to do so.

With respect to earmarking, the chair would like to remind all of my colleagues that in the context of the conference report that accompanied the conference activity of the FY '94 DOD bill, the chair made a commitment on the part of this committee that we would aggressively address the issue of earmarking, and the issue of earmarking will be addressed as a legislative matter in the context of the FY '95 DOD authorization bill.

With those comments, the chair would yield to Mr. Kyl.

REP. JON KYL (R-AZ): Thank you, Mr. Chairman.

Mr. Secretary, I have four questions I'd like to pose to you. Later this week, the house is scheduled to take up an education bill, H.R. 6, that will likely contain an amendment by Representative Mink directing the Department of Defense to pick up the costs of fully funding federal impact aid to states and school districts impacted by the military. As you know, these costs have always been borne by the Department of Education budget, and therefore the Mink amendment would represent a diversion of up to \$900 million from Defense to Education every year. What is your position on the Mink amendment, and will the administration oppose this blatant raid on the defense budget, consistent with the pledge that the president made during his State of the Union speech last month?

Secondly, you have testified about the readiness increase of 5.6 percent or the O&M funding increase related to readiness. I think you may have a letter from my colleague John McCain, Senator John McCain, which indicates that, based upon his evaluation of the figures that have been provided, less than \$2 billion, or about 20 percent, of that amount is actually related to true readiness, that much of it is nonreadiness related to Nunn-Lugar funds, civilian pay raise, drug interdiction, peacekeeping, environmental cleanup, and so forth. So my question is if you subtract out those items that don't really truly relate to readiness of the troops to conduct operations, how much dollars -- in dollars is really left for true readiness?

SEC. PERRY: Sir -- again, relating to this O&M figure -- one of the charts there related to statistics per troop as a meaningful measure of readiness investment. In a hearing last year before the readiness subcommittee, the Army vice chief of staff displayed a chart showing that the average Army O&M expenditure per troop had declined 36 percent from the 1985-1989 time frame to 1994, from a figure of \$44,000 per troop down to \$28,000.

Now, your figures only go back to 1993 in that chart. Were we over-ready by one third in 1989? What is the proper baseline? I think we have to understand that before we can reach any particular conclusion with respect to those numbers. And finally -- and General, this is a question for you -- is it true that General Luck requested that Patriot missiles be deployed to South Korea in November? And if so, what is the status of what -- I would consider this to be a very sensible request. Why has it taken so long to act on this particular request? Thank you.

SEC. PERRY: Thank you, Mr. Kyl. On the first question you asked, which had to do with the transfer of the responsibility and the costs from the Education Department to the Defense Department, I have a simple answer for that. I am opposed to that transfer. Secondly, on the readiness issue, you make a very good point that much of our O&M account involves activities not related to readiness. That's the difficulty we have in trying to characterize relations between readiness and budget expenditures.

What I can say on that is that whatever those difficulties are, the two sets of figures I gave you were on the same baseline, the same reference. I'm not sure that it's possible to

make a precise extraction and then give you the comparable numbers for just readiness-related items. We can try to do that and try to get that for you for the record.

The difficulty in that, Mr. Kyl, is that some of the things which you might not think are related to readiness, like fixing barracks, or have to do with quality of life of troops, may have a significant effect on medium-term readiness even if they don't affect the more obvious near-term readiness questions. That was an issue which we had our readiness panel looking at very intensely during the last year, which was how could you isolate those parts of the O&M budget that most affect readiness, so that I could know as the secretary which ones to put the primary emphasis on. I have some modest advice on that score that helps me some, but it's a very difficult task.

REP. KYL: Mr. Secretary, if I could on that, I appreciate what you're saying and I think that's the important point. I guess I would just follow up by saying that therefore it would probably be more accurate not to use the 5.6 percent compared to the amount -- or percent of drawdown as that chart does, but to say some component of this is related to other items. Some component is related to true readiness, but not to suggest that the whole 5.6 percent is actual readiness-related. Would that not be a more accurate way perhaps of saying it?

SEC. PERRY: I accept that judgment. Maybe Mr. Hambre would like to say something.

MR. HAMBRE: Mr. Kyl, if I could respond to that, I understand what you're saying, sir. But if we were going to have to pay the two and a half billion dollars for environmental cleanup in the O&M account, whether we had an increase or a decrease in force structure, and the fact that that was there had we not increased O&M by 5.6 percent, that would have meant that coming as a direct expense of the readiness account.

So I think it is fair to show in the aggregate what is the commitment that the administration made to the readiness accounts in O&M. We would have paid those environmental cleanup bills anyway because we're under requirement by law to do so. So I think it's still a fair representation, but I gave the figures to Mr. McCain and to his staff, and it is 2 percent real growth in this account. And this is on top of an overall account that's shrinking 1 percent in real terms this year compared to last year.

GEN. SHALIKASHVILI: Let me see if I can put the Patriot request and the status of the Patriot deployment in some perspective. Patriots have always been a weapon system that was scheduled to be deployed to Korea early on as tensions rise. When I first met with General Luck in November in Seoul, we discussed whether it wouldn't make more sense to send them prior to the outbreak of some sort of special tensions, because the deployment of Patriots is, after all, a great (claimant?) of strategic lift. And so rather than use up that strategic lift early on in a crisis, it seemed to us to make more sense to deploy those Patriots in the absence of a crisis so they were always there.

Based upon those discussions, then in December General Luck asked for the deployment of Patriots, not because of the nuclear

issue that had raised itself or something else, but rather than trying to pick a time when it would not -- that would be an absence of tensions where we could move those Patriots, he asked for them to be deployed sometime this winter.

Since that time, we have been in discussions with our South Korean allies to find the right time to send them and being mindful of the very delicate discussions that are ongoing now between the IAEA and North Korea on the necessary inspections to return North Korea to the full nuclear safeguards. Our supposition is that we want those Patriots sent not because we see some imminent need, but because we want to send them before that imminent need arises, to save us a strategic lift.

And therefore, there's a different sense of urgency than some other kind of a request that says, "I see something coming tomorrow and send me something." That probably, I think, is as best as I can explain to you what some people see as the lack of sense of urgency, which isn't at all. On the other hand, we don't want to derail the process that's ongoing now that can yield some very great benefits to us all. And we do not want to give some excuse to the North Koreans to derail the process. But we are predisposed to as soon as the time is right, and we agreed to the time with our South Korean allies to, in fact, ship those Patriots to the Republic of Korea.

REP. DELLUMS: Mr. McCurdy followed by Mr. Sisisky.

REP. DAVE MCCURDY (D-OK): Thank you, Mr. Chairman. I want to commend our witnesses today. I'm delighted to have Dr. Perry in that position. He's obviously a very experienced manager and we're very fortunate to have him as secretary, and General Shalikashvili, who's also a very (cool?) manager and operator. And we're pleased and glad that you've been out there with the troops. And you've done, I think, a very commendable job early on in both your presentations. And I'm obviously glad to see John Hambre, notwithstanding his background in the other body, but we are glad that he is on our side now.

I have two principal points that I want to raise and a couple of questions that come from that. One is, first of all, really is foreign policy priorities. And notwithstanding the somewhat euphoric feeling in this city today about the success -- and we'll have to measure that over time -- in Bosnia with the NATO threat, I hope that we continue to keep our focus on the big priorities, and, if I may, and those that engage our national interests the most, the first being Russia.

And I am -- unlike some of my colleagues who take issue on the Nunn-Lugar monies, I see a direct connection between our national security interests and the disposal of nuclear weapons in the former Soviet Union. Secondly, I hope that we can do more on military-to-military contacts between ourselves and the Russian military. Both Senator Nunn and I recently had conversations with some Russian military and some experts on that topic, and I think there needs to be some renewed emphasis on that, and specifically some money and even possibly directives within the Department of Defense that enhance those contacts if at all possible.

The second national priority interest; Russia is a declining

superpower, collapsing superpower, but we have an emerging superpower, and that's China. And I believe again that military-to-military contacts is critical and that we need to watch their military buildup carefully because they may have a strong economic base as opposed to a weak economic base in the former Soviet Union.

Third has to be North Korea and the peninsula, and obviously the fourth being the Middle East. Both of those bring up a broader issue, though, of proliferation that I want to spend just a minute and ask you about. In North Korea, there are those who are wringing their hands over Team Spirit. In my experience in the peninsula there, everyone has said Team Spirit is not a major loss if that were given up, but that there are other exercises that are critical -- (multifocused?) lands and others -- that really do have tremendous impact and we need to participate and protect those.

But I also believe that there are some qualitative upgrades in Korea that could be addressed. And I'm not just talking about Patriot, but also the possibilities of -- and I'll just leave these conventional upgrades for targeting purposes that might be very helpful; and also eventually theater missile defense.

But let me ask you a question about proliferation. I perceive that there's a potential inherent conflict of purposes, or at least interest. This administration is obviously driven by the slogan, "It's the economy, stupid." And that's a proper focus. But at the same time, isn't there a potential conflict in exporting -- in putting such emphasis on exports and trade and business and having suppliers around the world being able to increase their business base and our desire to contain proliferants, whether it be rogue states or even just technology of our own base going to potentially hostile regimes? And I'd appreciate your comments regarding COCOM. That's the first question or series.

The second is, during Dr. Perry's hearing on acquisition reform, I raised a -- which, by the way, is a great initiative, Mr. Secretary, and I hope we all support the reforms you're proposing. But the second point's on DOD priorities. First is foreign policy priorities; second is DOD priorities. I think we all concur that you've got the right targets -- readiness, quality of personnel, quality of technology; and I would even add the fourth, the C4I. I think that's important. But it's the pace of the downsizing and the management of that mix that raises the question I raised in the last hearing that you said you're going to confront frontally today, Dr. Perry.

And how do you manage that decline when, in fact, your overhead accounts -- your infrastructure accounts are not coming down and paying out as quickly as you would need in order to preserve the readiness, and so you're paying for it out of procurement? I understand the charts. But at the same time, I'd like to know your honest feelings of how much of a management dilemma that really is. Is this something that you have no margin whatsoever, or are we going to see major press for a huge base closure round which may be required? How do you attempt to manage that very, very difficult challenge of this downsizing?

SEC. PERRY: Those are some very profound issues. Let me try to quickly address some of them. On the notion of focusing on the big problems, I agree wholeheartedly. And I also agree with the four big problems you mentioned, and in that order. In terms of the military- to-military contacts, both with Russia and with China, I strongly support them, am a vigorous proponent; and indeed, if you broaden that to the defense contracts, actively and vigorously pursuing them with Russia and some of the other Eastern European countries. For example, I have been on the hotline three times this week with Minister of Defense Grachev. Now, as it happens, these discussions were Bosnia- oriented. But it also gave us a chance to develop a working relationship which will be useful in many other aspects of our problems.

On the proliferation versus the desire to export our commercial products, the first, I think, important point I'll make there is that the responsibility for controlling proliferation, particularly nuclear proliferation, and for determining what position we ought to take on exporting is at a single point in the Defense Department. One office is responsible for both of those.

Secondly, the objective of that office, the guidelines which I have given this office and which the director has enthusiastically endorsed, is that, first of all, we should remove the bureaucratic controls which impede the sale of commercially available equipment such as PCs, personal desk computers. And we have supported a vigorous easing of the regulations in that regard.

On the other hand, we favor and are pushing hard very tight controls, much tighter controls, including the diplomatic initiatives to try to restrict the sale of those crucial components of nuclear weapons, or, for that matter, chemical weapons, which are not commercially available. So we have to do both of those at once, and we are sincerely trying to do that.

In terms of the issue you raised on overhead, in many ways that is the most fundamental problem we have in budget management today. And that is that no matter how hard and vigorously we work this contracting the infrastructure and overhead, it lags behind the -- with the drawing down of the force structure. This is not just a defense problem, it is a problem in any institution that is going through a drawdown. And as a consequence, during that -- until we reach a steady state, we are taking -- we are suffering because of that lagging behind. And not only lags behind, as I mentioned in my opening testimony, we actually had to invest, we had to spend money in order to get that overhead reduction in the outyears. The price we are paying for that is very clearly in our procurement -- the size of our procurement budget. We had a choice. We could have taken down readiness -- that was the choice which was done in -- made in the late '70s. We have chosen instead to take it out of procurement. I am not happy with that decision, but I think of the choices available to us that was the best alternative. But particularly if we can find some ways of preserving those crucial portions of the defense industrial base that are going to be hit hard by this, and which we need -- we know we need to have maintained in the future.

REP. MCCURDY: General Shali, do you have any further --

GEN. SHALIKASHVILI: If I may just address the issue of the strategic main event, it's really our relationship with Russia and how events unfold there, and what role military-to-military contacts can play with that. When I was the commander of U.S. forces in Europe, we began a very, I thought, dynamic military-to-military contact program, not only with Russia, but with all the other Central and East European countries to ensure that we did not raise sensitivities that otherwise might come up. I found that one of the limiting factors in our military-to-military contacts, particularly with Russia, was their ability to finance those contacts, and on the other hand their pride in not wishing to accept things from us that on a one-time basis they might be willing to accept financial assistance for instance in the form of transportation to get them to an event. But in the long term they were just not willing to do that because of their pride as being a large, important military force, and they did not want to -- (inaudible). So we are trying now to concentrate much less on quantity and much, much more on quality -- so keep it within range of what they can afford, and make sure that we get a major payoff.

In that regard, I think we've had a significant break so in here within the next few months we should have the first real honest-to-goodness exercise between American forces and Russian forces in Russia, where we will be able to have our soldiers meeting with their soldiers, our young officers and non-commissioned officers with their officers, operating in a field side by side. And I am really very encouraged that if we can pull this off well this will go a long way towards breaking down further walls that still exist between us and the Russian armed forces.

REP. MCCURDY: Thank you very much. That was a superb set of answers. Thank you.

REP. DELLUMS: Before yielding to Mr. Sisisky, the chair would like to announce to my colleagues that the chair understands that the Secretary has to leave by 3:15 in order to be at a meeting at the White House with the President at 3:30. So it would be the intent of the chair to continue to proceed with Mr. Sisisky, and followed by Mr. Bateman. We would -- the committee would stand in recess at 12:15, to provide an hour for lunch. We will reconvene at 1:15 in order to have a couple of hours of questions for my colleagues if they have remaining questions, including the chair. And with that announcement, the chair would yield to Mr. Sisisky, followed by Mr. Bateman.

REP. SISISKY: Thank you, Mr. Chairman. And let me add my warm welcome to both you, Dr. Perry and General Shalikashvili -- and also John Hambre too, who sometimes has served in the Senate -- not as a senator, but we've done battle before, but always in the interest of strong national defense.

REP./MR. : (Off mike.) (Laughter.)

REP. SISISKY: You know, it's strange, Mr. Secretary, that last time you were here, on acquisition reform, I hadn't seen this, but if you remember I brought up the issue of financial management as a real problem. And I was reading this here today,

and I had told the Secretary, Mr. Hambre, that if he could just get that part of the thing straight I would put a bill in to name the Pentagon the William Perry Building. If you get it straight, we'll even try to name an aircraft carrier after somebody.
(Laughter.)

Mr. Secretary, very fast, one of colleagues mentioned the impact aid. Of course we've talked about the different funds coming out the defense budget, and you answered as I assumed you would answer, that you are opposed. I would hope that you would fight desperately for that in the next day or two with my colleagues and the Congress, because I think it is of primary importance that the (rate ?) does not go on the defense budget, because I think you're going to see more and more of that.

Also, every year that I've been here there has been in some form an attack on NATO, whether our participation -- it comes under burden sharing -- whatever disguise it comes under. We've set the limits at 100,000. I'd like to know from you if you think that's enough. Do you think we can go below it? Do we need more? And, number two, what role do you see in the new NATO? And I think that's important, and we have to know in these posture hearings the importance of the -- (inaudible) -- and where do we go from here but, more important, the national interest of the United States. In some way we have to relay to the American public that the United States does have a national interest in Europe. So I would like to get those comments from both of you gentlemen.

SEC. PERRY: Thank you very much, Mr. Sisisky. General Shalikashvili will want to comment on NATO as well. But let me start off by saying that if -- I regard it as a crucial -- crucial importance to the United States' national security that we sustain a strong, vital, healthy NATO. That if I had ever had any doubts about that, they were dispelled this weekend by us in Aviano in reviewing the air crews that were preparing for airstrikes in Bosnia should those become necessary. And we had a meeting of the five ministers of defense who were involved in that, and the five chiefs of defense that were involved in that. There was a unanimous agreement on how to proceed, the importance of proceeding, on the operational plans that were laid down. We had Admiral Boorda of CINC South, and the CINC South air, General Ashey (ph), were there briefing us. It was really an inspiration to see how well that organization could work.

Then we went out to the flight lines, and General Shalikashvili and I reviewed each of the air crews that would have been going over from that air base. There were Americans and F-16s, and F-18s, and F-15s. There were Dutch F-16s. There were British Jaguars. There were French Mirages. And each one of them we asked a variety of questions. But the one question which I always asked, was, "Are you ready for this operation if we go on it?" The answer was uniformly, by each of the air crews, "We are ready." And based on what Admiral Boorda had told us earlier about the training that they had done, including coordinated training with the ground crews that are in the U.N., including target runs, it was impressive to see the degree to which this force was ready to go when we call on them. We are -- I can't

tell you how relieved I am that we did not need to call on those young men and women to go on those airstrikes, but that operation is not over yet, and their readiness was not only important in providing the deterrent effect, which has been already demonstrated, but they are still there and they are ready, and we still may need to call on them.

Let me ask General Shali to comment further on that.

GEN. SHALIKASHVILI: If I may just for a second on a broader issue, I think NATO's -- our interest in NATO is really our interest in Europe. And I think it starts out with the fact that if there is a lesson of this century, it really is that whenever the United States and Europe begin to go their separate ways, we both, on both sides of the Atlantic, pay a terrible price for it. We've done so after World War I, and we almost did it after World War II and in the last minute we decided to stay, and we brought Europe the longest period of peace in its modern history -- not for Europe, but for us every bit as well, because the stability and the security of Europe is inextricably tied to our own security.

Now, we gain a foothold in Europe really through NATO. We can talk till we're blue in the face about our common heritage, about our economic linkages; but it is really through the Alliance that we have not only a foothold in Europe, but we also have the right to leadership and to the day-to-day security concerns of Europe. That model has given Western Europe the anchor of stability that they needed to rebuild their economic systems and their democratic institutions after World War II. And they became some of the strongest economic and democratic nations the world has ever seen. And now there is another half of Europe looking for that same anchor of stability that only NATO can give them to rebuild their own democratic -- or to build their own democratic institutions, to build for the first time market economies so they too can prosper like Western Europe did. We have for the first time I think in history the opportunity to build one Europe.

And if you go travel through Eastern Europe, Central Europe, the one institution they believe that can give it to them is not the EC, is not the CSCE -- they all want to join NATO. Why? Because they see through NATO membership, or through the Alliance itself, that opportunity that they will have to build themselves into nations that mirror that -- in time to mirror that which Western Europe has become. That is our interest in Europe, and that is the future for the Alliance. It is important that we can deal with the Bosnians; but it is much more important that NATO play a pivotal role in building one Europe without new divisive lines between them, that is just as stable, that is just as democratic, and that is just as wedded to market economies as Western Europe is today. I think that's our interest. And that's why the investment of 100,000 people in Europe to give us that leadership position, to move them in that direction, I think is a very, very prudent investment in the future.

REP. DELLUMS: The time of the gentleman has expired. We will conclude this morning's questioning with Mr. Bateman.

REP. BATEMAN: Thank you, Mr. Chairman. And a very warm

welcome to Secretary Perry and to General Shalikashvili. We're delighted to have you before the committee.

I regret the fact that I had to go out and do a memorial address to George Washington at the Monument, which is something that is required of people where I come from. So I didn't hear much of your testimony and a lot of the questions. And so, I didn't hear much of your testimony and a lot of the questions. And perhaps the principal question that I want to ask may have been covered.

But before leaving, Dr. Perry, you had made reference to, and you were about to show the -- were showing the charts, showing the relative base force versus bottom-up review. And the thing that has given me some concern here is the general perception -- and I think it's a misperception -- that the base force was put together and structured before the end of the Cold War. That's really not correct. The Berlin wall was down. The Warsaw Pact had been dissolved. And the Soviet Union, as we used to know it, has already disintegrated.

While it is, I think, accurate to say that the base force was a response to post end of Cold War, it was before the heightened concerns, with respect to North Korea, had surfaced. It was before Somalia. It was before Bosnia. And it was before the elections in Russia late last year, which did not take a very encouraging turn, and where the future is more fraught with concern and risk than we had previously hoped. And so, I guess that brings me to go to the bottom line, which will not surprise either of you, I suspect, that perhaps the bottom-up review is not overblown, but perhaps may even be inadequate.

And so, I'll just stop with that -- but add this remaining comment, how delighted I am at your responses to my colleague, Mr. Siskey's question, with reference to NATO, the importance of our role in it. And to add a further exhortation that we get about the implementation of the Partnership for Peace proposal so that there is no question but what the countries of central and eastern Europe, who wish to join NATO, do in fact come into NATO, and that the Partnership for Peace is not a question of whether they will become full partners in NATO, but when they become partners, and that we should be pursuing it aggressively.

Thank you.

SEC. PERRY: Let me first comment, Mr. Bateman, that we appreciate and we need the support of yourself and Mr. Siskey and the other members of this committee that have continually been strong advocates for NATO. We really need that support, because it's under assault -- the funding for it is under assault from all directions. And it is -- I know you and Mr. Siskey and many of the members of this committee share our views on the importance of NATO.

The second comment has to do with the base force, and you're quite right that many of the fundamental changes had already taken place. The geopolitical change had already taken place at the time that base force was put together. Other important changes, like the break-up of the Soviet Union had not taken place at that stage, but could have perhaps been anticipated. As a result of that, the bottom-up review, when it was concluded,

was criticized by some people as being not a dramatic enough change from the base force. And, indeed, if you see the figures there, you can see that in many areas, we are very close to the base force. And I think it reflects the very point you're making -- that many of the changes had already been anticipated by Secretary Cheney and in the base force preparation they did at that time.

GEN. SHALIKASHVILI: The only thing that I would add is that, I tried in my opening remarks to make the point that the bottom-up review structure is very lean -- adequate only if we stay on readiness and if we make that force more capable to the enhancements that we have articulated. If we do not, then I would have to reverse my judgment of its adequacy.

REP. BATEMAN: Thank you.

REP. DELLUMS: That concludes the gentleman's remarks, and that concludes this morning's session. The full committee stands in recess until 1:15, and we will begin promptly at that time.

END OF MORNING SESSION